

Report of the Committee on the Privatization of Crown Corporations

**FROM THE QUIET REVOLUTION...
...TO THE TWENTY-FIRST CENTURY**

Québec 

87-00864/

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...TO THE TWENTY-FIRST CENTURY**

Submitted to
Mr. Pierre Fortier
Minister responsible for Privatization

June 1986

Legal deposit — 3rd quarter 1986
Bibliothèque nationale du Québec
ISBN 2-550-16540-3

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Montréal, June 25, 1986

Dear Sir,

In accordance with the terms of reference entrusted to us by Prime Minister Robert Bourassa on January 17, 1986, we are pleased to submit our report on the Privatization of Crown Corporations of the gouvernement du Québec.

We are at your disposal for any further information you may require.

Yours very truly,

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**FOREWORD
AND
SUMMARY**

2

Foreword and Summary

The essence of our thinking

The Advisory Committee on privatization was instructed to advise the Minister responsible for Privatization on the advisability of transferring to the private sector in whole or in part, those Crown corporations whose activities are commercial or industrial in nature. The Committee was also to establish priorities among the corporations whose privatization was desirable and comment on procedures for achieving this transition. The Committee presents its point of view on these questions in this report and the few pages that follow summarize the essence of its thinking.

A general re-assessment

At the outset, it is important to stress that the calling into question of government or Crown corporations is not solely a Québec phenomenon. In fact, the debate on privatization is going on at present in most industrialized countries. The universality of the discussion points up a major characteristic of the issue: the public enterprise as an institution for development and management is up against the structural shortcomings inherent in its nature. Whatever the value of the reasons dictating its creation, the formula undoubtedly suffers from various weaknesses which add fuel to the question.

Strategic enterprises: Specific to Québec

Apart from the social affairs and education networks, there are some fifty Crown corporations and related agencies in Québec (excluding subsidiaries), which can be divided into three groups. About thirty administer subsidized activities, from the Régie des installations olympiques through the Centre de recherche industrielle du Québec and the Société de développement industriel to the Société du port ferroviaire de Baie-Comeau — Hauterive. Most if not all of these corporations' budgets are subsidized and they manage activities for which the government assumes responsibility. A second group of seven corporations is made up of public monopolies such as Hydro-Québec, the Caisse de dépôt et placement du Québec, the Société des alcools du Québec and the Régie de l'assurance automobile du Québec. These seven corporations reflect management choices largely imitated in many other North American jurisdictions.

Finally, Québec has ten Crown corporations which may be described as strategic enterprises. They pursue economic development objectives and are in competition

with private sector firms. These enterprises along with their activity sectors and their date of creation are:

Société générale de financement	Industrial holding company	1962
Sidbec	Iron and steel	1964
SOQUEM	Mining	1965
REXFOR	Forestry	1969
SOQUIP	Gas and oil	1969
SOQUIA	Agro-food	1975
Madelinpêche	Fisheries	1978
Société nationale de l'amiante	Asbestos	1978
SQT (and Québecair)	Transport	1983
SEPAQ	Recreation and tourism	1985

Altogether, these enterprises (mainly the Société générale de financement, SOQUIA, REXFOR and the Société nationale de l'amiante) have some fifty subsidiaries. Their assets total over \$3 billion. They employ about 17 thousand persons. Excluding Sidbec and the Société nationale de l'amiante because of their deficit situation, government equity in these corporations as at March 31, 1986, was \$860 million.

The existence of these ten strategic enterprises clearly sets Québec apart from the other provinces of Canada and the American States. Stemming from the dominant economic philosophy of the past twenty-five years — the Quiet Revolution — these enterprises had two main strategic objectives, an accelerated development of Québec's industrial structure and an increased presence of Francophones in higher economic echelons.

Their performance: mitigated results. The performance of strategic enterprises may be assessed in accordance with several criteria. The important thing is not to put the past on trial, but rather to ask ourselves about the relevance of such tools for government action from the point of view of the next fifteen years. With this in view, an examination of a few of the reasons invoked in support of maintaining these Crown corporations was carried out. Here are the outstanding points.

Québec control of major corporations. A number of these corporations proved practical vehicles for controlling major Québec enterprises. However, it is obvious that the presence of a Crown corporation network is no longer necessary for this purpose. The private sector in Québec can now take over, as in fact, it is now doing.

Promotion of Francophones. Early in the 1960s, such a reason could be invoked. In 1986, Francophone executives are present in large numbers at all levels of Québec's economy. Crown corporations are no longer called upon to play a significant role in this respect.

Structural Impact. The benefits of government action through strategic enterprises have actually been more than mitigated. Even the most ambitious action, such as that of the Société générale de financement, in the final analysis, has had only limited effect. On the other hand, failures have been many - witness Sidbec and the Société nationale de l'amiante.

The secular arm. The strategic enterprise has proved a contributory tool for carrying out projects or government will in various sectors. Here too government action has had varying degrees of success. The aluminum smelter at Bécancour may be comparable to the investment in Sidbec.

What can we conclude from a summary assessment of the performance of these enterprises? Two general observations can be made on the strength of the analysis carried out by the Committee.

First, the strategic enterprises are solutions which are more durable than the problems dictating their creation. The political or economic scene evolves and changes, but the Crown corporation remains.

Second, the strategic enterprise is one means among others which, however, has generally been imposed as an end in itself. For instance, was it necessary to constitute the Société nationale de l'amiante to reach the government's objectives in the asbestos sector?

The Committee recommends the eventual complete transfer of these ten strategic enterprises from the public to the private sector. Those that have reached their objectives can say mission accomplished. The others are faced with problems which no longer justify their existence. Furthermore, the structural shortcomings of the formula, leading to its being questioned in many countries, make its use problematical when these enterprises are called upon to compete directly with commercial or industrial firms.

Finally, we must avoid corporation problems becoming government problems. Even the role of the secular arm, a role which could sometimes be valid in itself, may be played more adequately in a more flexible fashion less costly to the State.

The transition: A delicate process

We have studied the procedure proposed by the government in the paper prepared by the Minister responsible for Privatization. In our opinion, this procedure will assure an orderly coordinated transfer of these enterprises from the public sector to the private sector. The priority granted to structural objectives (the impact on Québec's economy) over financial objectives (government revenues) is endorsed by the Committee. Insofar as these enterprises constitute the contribution of the Quiet Revolution to Quebecers' industrial heritage, the government should, if possible, promote the transfer of these enterprises to interests under Québec control.

It is not a question of denying the past: but rather of continuing what was begun, in a framework better adapted to the economic structures of the next fifteen years.

Other Crown Corporations

An analysis of the situation of the seven public monopolies reveals one constant: questioning of the institutional structures of these corporations is rare. However, their dual status of monopoly and Crown corporation demonstrates shortcomings and constraints which would justify much closer examination of their position. These public monopolies generally avoid being challenged by taking on a public image favouring their current status and mobilizing their clientele in a manner of speaking behind the same status quo. Consequently, these institutions, Hydro-Québec, the Caisse de dépôt et placement, the Régie de l'assurance automobile du Québec or Loto-Québec, incur the risk of their structures becoming outmoded. A review of their structures would remedy this shortcoming.

On the other hand, the use of the Crown corporation structure for the purpose of managing subsidized activities should be seriously questioned. Although it is more flexible than an internal government board for managing various activities, the formula suffers from major difficulties. Our report deals with them explicitly. The formula has only certain of the attributes of private enterprise. But it retains many of the constraints of its government affiliation. Other formulae, particularly contracting out and non-profit organizations, often offer obvious advantages and their use should be considered.

Conclusions

The debate over privatization is carried on at two levels. First, we may question the place and role of government in the economy. The Crown corporation is a favorite tool for extending the bounds of government activity and is often associated with this question. On this level, the Committee notes that the growth of the Québec private sector, particularly its Francophone component, calls for a questioning of the government presence in the commercial and industrial sectors of the economy. The major reasons which dictated the institution of Crown corporations working in these sectors are now a thing of the past.

On a second level, the debate deals with the efficiency of the Crown corporation formula. It obviously suffers from the defects of any hybrid. Certain characteristics of private enterprise cannot mask the effects of public ownership. Whether they claim otherwise or not, Crown corporations remain tied to the political system, with all the constraints that this involves. Consequently, it can but sacrifice a certain flexibility in its behaviour, an attribute which is extremely valuable in any sector where competition and market forces define performance criteria.

The government has many means at its disposal for realizing its economic objectives. The Crown corporation is one among others. Its use implies major limitations which must be recognized. Furthermore, when the needs that justify the creation of a Crown corporation diminish, the government must not hesitate to question its presence in the public sector. This is the nub of the debate on privatization which is in progress, in Québec as in most industrialized countries.

**THE
COMMITTEE'S
ROLE**

I - The Committee's Role

The debate on Crown corporations evokes a twofold reality. On the one hand, the presence of the government in particular fields of endeavour is basic to the questions being asked about Crown corporations. On the other hand, the Crown corporation is an adaptation by the government of a legal structure borrowed from the private sector, to supervise certain of its activities, hence the questions of control, responsibility and orientation of Crown corporations.

It is important to distinguish these two facets of the debate. The growing popularity of the privatization movement in most industrialized countries reflects essentially a calling into question of the role of government in the production of goods and services. Thus the debate goes far beyond the Crown corporation as a means of action to broach a much more comprehensive issue, that is, the role and place of government in the economy of industrialized countries.

It is not that the two aspects are independent. On the contrary, the questioning of Crown corporations, in Canada as elsewhere, reflects a certain disenchantment with their management and performance. But the fact remains that more fundamental questions underlie the debate.

We were aware of the two aspects of the issue when we undertook the role entrusted to us by the Québec government. Generally speaking, our task is to advise the Minister responsible for Privatization on the object of his role, that is, the specific scope of an exercise in privatization of Québec government Crown corporations, the means of achieving this and identification of certain functions which can be assumed by the private sector.

The formal mandate of the Advisory Committee was defined within the mandate entrusted to the Minister responsible for Privatization in Order No. 2653-85 of December 13, 1985. We have interpreted it in its broad sense. It seemed important to us for the quality of public debate which could be aroused by the government's will to review the pertinence of the very existence of a great many Crown corporations.

The Committee's mandate consists in helping the Minister responsible for Privatization to carry out his mandate for:

- establishing criteria to justify the maintenance of existing Crown corporations or the creation of new ones;
- determining, according to these criteria, which Crown corporations should be transferred, in whole or in part, to the private sector;

- determining the order of priority for Crown corporations for which privatization is recommended;
- defining the procedure, the terms and conditions and the schedule for carrying out privatization of the corporations identified;
- supervising the process and making sure that it is carried out in the best interests of the government as owner.

We asked four types of questions. First we questioned the presence of the government, in its Crown corporations, in various sectors of the production of goods and services which are usually assumed by the private sector. More specifically, we dealt with the case of ten Crown corporations working in commercial or industrial sectors. Second we examined the methodology proposed by the Minister responsible for Privatization and studied the principles retained by the government to guide him in his work.

Third, we examined the position of seven corporations that act as government agents and have a monopoly over certain activities which have been nationalized in some way. Hydro-Québec is typical of these. Finally, we analysed the advantages and disadvantages of the Crown corporation formula for conducting certain subsidized activities.

Our analysis of the privatization phenomenon, as we mentioned above, fits into the context of a review of the role and place of public enterprises in most industrialized countries. This review is also taking place in a great many developing countries where such enterprises were the preferred instrument for industrial development. An abundant literature has developed around the question.¹ A few months ago, the British publication « *The Economist* » made a survey of the privatization movements in some thirty countries.²

The simultaneous appearance, in a great many countries, of this "revisionism" vis-à-vis a tool which until recently had been the preferred vehicle for assuring economic development is important in the context of the debate which privatization will not fail to arouse in Québec. In a word, the disenchantment about Crown corporations is not peculiar to Québec. Here as elsewhere, this disenchantment reflects a questioning of traditional means of government intervention. The presence in a great many countries of public enterprises in direct

¹ A bibliography on privatization throughout the world and the position of Crown corporations in Québec is presented at the end of the report.

² « Privatization, Everybody's Doing it, Differently » *The Economist*, December 21, 1985. We reproduce a partial list of these countries in Chapter II.

competition with private enterprise makes it possible to establish instructive comparisons with regard to the relative performance of the private sector and the public sector in various fields.³

The privatization process is already underway in Québec. In February 1986 the Minister responsible for Privatization presented the guiding principles to direct government action in the process.⁴ The Raffinerie de sucre du Québec was sold to private interests in March 1986 and became the first Crown corporation to be privatized. In the same month, the government sold the Provigo shares held by SOQUIA (Société québécoise d'initiatives agro-alimentaires). More recently, the government announced its intention of transferring certain gold-bearing properties of SOQUEM (Société québécoise d'exploration minière) to CAMBIOR, a new corporation created for this purpose. The transaction will be financed by a public distribution of shares in the latter corporation. The Advisory Committee was consulted about the main transactions which have already been concluded.

Our report has seven chapters. The first acts as an introduction and presents the general problem of privatization in Québec. Chapter II pinpoints the place and role of Crown corporations in Québec, elsewhere in Canada and in a few other industrialized countries. We also deal with the causes of the emergence of Crown corporations and the more recent questioning of their role.

Chapter III deals with the ten Crown corporations we have designated, analysing their role as strategic enterprises. These ten corporations are SGF (Société générale de financement), SOQUEM, SOQUIP (Société québécoise d'initiatives pétrolières), REXFOR (Société de récupération, d'exploitation et de développement forestier du Québec), SOQUIA, Sidbec, the SQT (Société québécoise des transports) and its main subsidiary, Québecair, the SNA (Société nationale de l'amiante), Madelipêche and SÉPAQ (Société des établissements de plein air du Québec).

Chapter IV discusses the position of seven corporations which hold state monopolies: Hydro-Québec, Loto-Québec, the Caisse de dépôt et placement du Québec, the Société des alcools du Québec, the Société immobilière du Québec, the Régie de l'assurance automobile du Québec and the former Commission des accidents du travail, which is now the insurance branch of the Commission de la santé et de la sécurité du travail. **Our objective in this chapter is not to pronounce on the advisability of privatization of these corporations. We simply wish to launch a basic debate on the relevance and present structure of each of these State monopolies.**

Chapter V reviews the privatization process adopted by the Minister responsible for Privatization for carrying out his role. We also examine the guiding principles advocated by the government in its privatization policy.

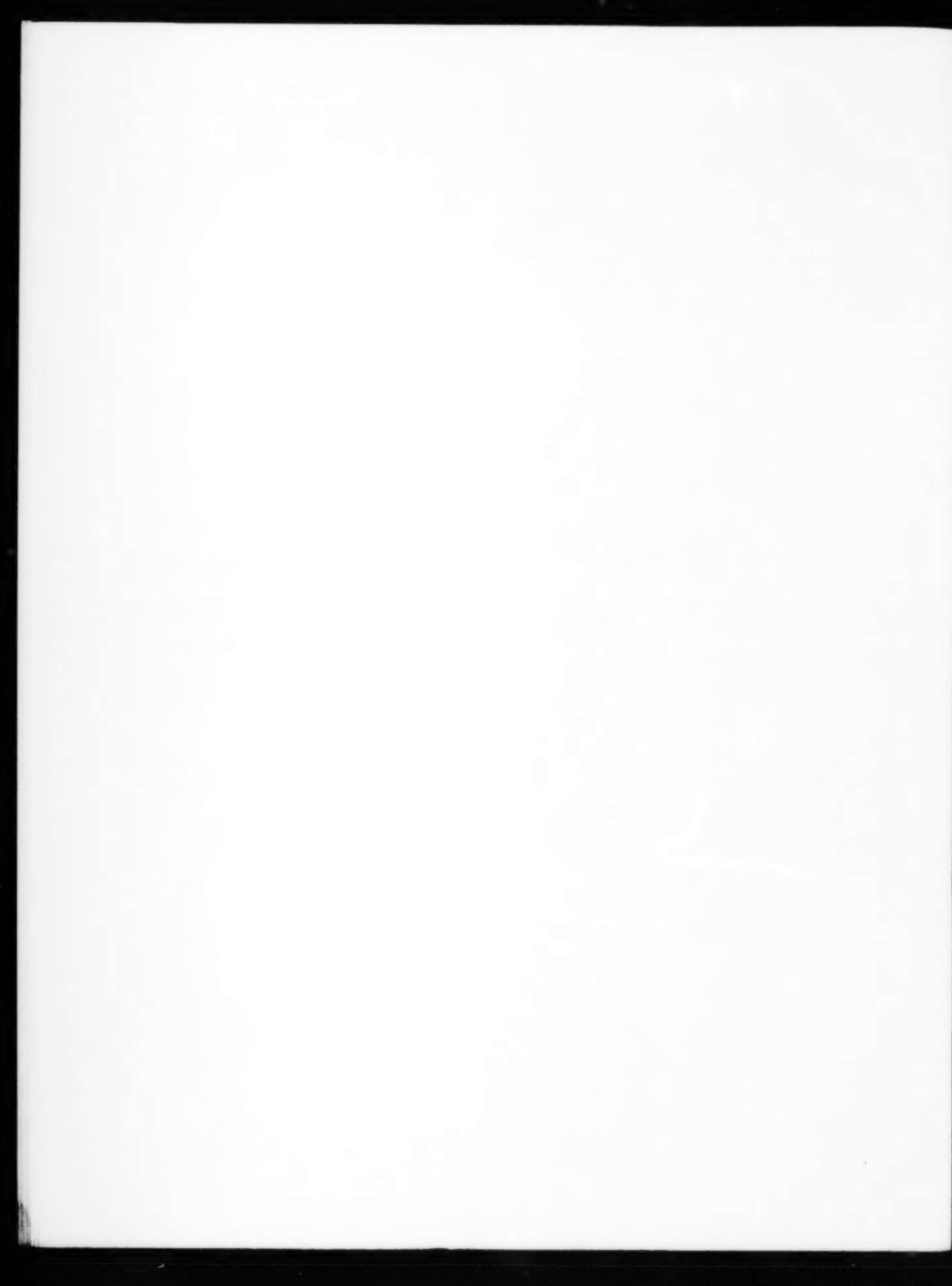
Chapter VI deals with the advantages and disadvantages of the legal form of the Crown corporation to control various activities subsidized by the government. Our analysis considers some thirty corporations entirely or mainly financed by the Québec government through subsidies. Our object is to take stock of the utility of this legal formula which is becoming increasingly popular with governments.

Finally, in Chapter VII we present the conclusions of our analysis, as well as our recommendations about the corporations that should be privatized, the order of priority and the procedures to be followed. We also make general recommendations on the advisability of a broader debate on government monopolies and the general use of Crown corporations in the subsidized sector.

³ On this subject see the bibliographical analysis on the comparative efficiency of public and private production throughout the world in Bertrand Jaquillat, *Désétatiser*, Paris, Robert Laffont, pp. 340-344. From the thirty studies cited, it is clear that on the basis of comparisons made in identical conditions, the private sector obtains better results. See also Steve H. Hanke, *Privatization: Theory, Evidence, and Implementation*, Proceedings of the Academy of Political Science, Vol. 35, No. 4, 1985.

⁴ *Privatization of Crown Corporations: Orientation and Prospects*, Ministère des Finances, Minister responsible for Privatization, Gouvernement du Québec, February 1986.

**THE PLACE
AND ROLE
OF CROWN
CORPORATIONS**



II - The Place and Role of Crown Corporations

In this chapter we wish to pinpoint the place and role of Crown corporations in Québec's economy. For a better appreciation of this position, we thought it would be wise to present the analysis in comparative terms, referring, among other things, to the situation in Ontario, elsewhere in Canada and federally. We also briefly examined the situation of public enterprises in a few other countries.

The chapter is divided into four sections. First we shall attempt to pinpoint the place occupied by Crown corporations in Québec's economy. Second, we shall deal with their role, referring to their original mandate and reviewing the political circumstances existing when they were set up. The third section is devoted to an examination of public enterprises in other jurisdictions. And the fourth deals with the worldwide review of their role and the underlying reasons for this review.

1. Crown Corporations in Québec

Québec is probably the territorial jurisdiction (state or province) where government presence is most pronounced in North America. However, the level is still well below what is prevalent in some countries in Europe.

Table 2.1 compares changes since 1975 in certain economic indicators in Québec, OECD countries, the United States and Canada. We note first that public sector expenditures are much higher in Québec than in Canada as a whole, a differential of four percentage points of the GDP (Gross Domestic Product) which has been relatively constant since 1975. Expenditures of public administrations in Québec represent half the GDP, that is approximately the same proportion as in the OECD countries of Europe. Public enterprises are one of the factors explaining the high proportion the public sector accounts for in national expenditures.

There is no universally recognized classification for categorizing public enterprises. Economists and political scientists who have studied the phenomenon in North America and Europe have developed many typologies, according to the needs of their analyses.¹ We have thus taken the same road and adopted three categories of Crown corporations, defined as follows:

Strategic enterprises

These Crown corporations, ten in number, working in commercial and industrial fields, compete with the private sector. They are defined as instruments of strategic government action in specific sectors.

Public monopolies

These Crown corporations, seven in number, are government monopolies in fields which could be exploited by the private sector.

The subsidized sector

Crown corporations in this sector have a mandate to assume responsibility for or manage activities subsidized by the government. The Committee has taken about thirty of these corporations for the purposes of its analysis.

We have used this classification to assess the presence of Crown corporations in Québec's economy. Table 2.2 gives a few statistics on the size of strategic enterprises and public monopolies in Québec. These two categories account for the largest Crown corporations and the greater part of the assets they control.

The most important of the strategic enterprises, in terms of assets under control, is the SGF. With assets as at March 31, 1986, of \$1.4 billion, it represents over a third of the assets of the strategic enterprises. Next in order of size come Sidbec and SOQUIP. In terms of employees, the order is substantially the same. Table 2.3 gives the number of employees for each strategic enterprise as at March 31, 1985. This table shows the employment level in subsidiaries and holdings of the strategic enterprises. This reflects the development of these Crown corporations, except for Sidbec, into authentic financial holding companies.

What do these strategic enterprises represent in the industrial sector as a whole in Québec? The number of industrial jobs in Québec comes to 600 000. This gives about 2 % of the industrial employment to Crown corporations described as strategic enterprises. Furthermore, the estimate of the relative importance of these corporations in terms of assets is substantially the same.

Public monopolies represent a much greater weight in the economy. This is due primarily to a few corporations, namely Hydro-Québec, the Caisse de dépôt et placement and the insurance activities of the Régie de

1 The Lambert Commission classified Federal departments and Crown agencies into four categories as follows: government departments, independent decision-making and advisory agencies, Crown corporations and joint venture enterprises. *Royal Commission on Financial Management Accountability*, final report, March 1979, see also M.J. Trebilcock and J.R.S. Pritchard, "Crown Corporations: The Calculus of Instrument Choice", in *Crown Corporations in Canada, The Calculus of Instrument Choice*, J.R.S. Pritchard, (Ed.) Toronto, Butterworth, 1983. In this study the authors group Crown corporations in terms of the objectives sought by the government intervention. A very different approach is given by Raouil Barbe, *Les entreprises publiques*, Montréal, Wilson & Lafleur, 1985, where Crown corporations are identified according to the composition of the Board of Directors or to whether the state owns all or only part of the capital. In the federal legislation respecting Crown corporations (S.C. 1984, c.31), Crown corporations are classified on the basis of whether or not they are entrusted with State administration, research, supervision, advisory or regulatory functions. For a classification of Crown corporations in Ontario, see *Report prepared for the Ministry of Treasury and Economics and the Management Board of Cabinet (The Gracey Report)*, July 1985.

Table 2.1
Economic Indicators, Québec and Elsewhere

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 ¹
Public administration expenditures, in percentage of GDP¹										
• Total OECD ²	38.4	37.9	37.7	38.2	38.6	40.1	40.9	42.3	41.7	n.d.
• OECD Europe	44.3	44.4	44.7	45.5	45.5	46.5	48.9	49.9	49.5	n.d.
• United States	35.6	34.5	33.4	32.8	33.0	35.0	35.3	37.7	38.1	n.d.
• Canada	40.8	39.4	40.3	40.8	39.3	40.9	41.8	46.0	46.8	n.d.
Public administration expenditures in Québec, in percentage of GDP³										
• Total for public administrations	44.4	42.9	45.6	44.7	44.6	47.1	48.6	51.2	50.8	51.8
• Québec government	22.4	22.3	25.5	23.9	24.6	26.2	26.1	27.2	26.6	26.8

1. Total expenditures of public administrations consist primarily of final consumption, interest, subsidies and social security benefits (unpaid jobs) plus gross capital formation. The final consumption component comprises current purchases of goods and services for public administration, national defence, health services and education, excluding transfers.

2. OECD estimates and forecasts.

3. Expenditures of the federal, provincial (Québec), local administrations (municipalities and school boards) and hospitals, excluding transfers between administrations.

Source: OECD Economic Outlook, December 1985.
CANSIM, Statistics Canada 13-213.

Table 2.2
Size of Strategic Enterprises and Public Monopolies as at March 31, 1986*
(in thousands of dollars)

	Total assets	Long-term debt	Guaranteed loans
Strategic enterprises			
SGF	1 399 022	451 015	95 119
SIDBEC	524 789	523 093	523 093
SOQUIP	419 739	177 758	—
SOQUEM	201 406	84 553	—
SNA	160 256	50 938	23 500
REXFOR	158 282	26 121	—
SQT	148 150	74 661	13 500
SOQUIA	51 126	—	—
MADLIPÊCHE	26 135	9 580	6 042
SÉPAQ	30 323	269	—
Total strategic enterprises	3 119 208	1 397 988	661 254
Public monopolies			
HYDRO-QUÉBEC	29 183 000	20 123 000	19 866 000
CAISSE DE DÉPÔT	22 543 379	—	—
CSST	183 210	—	—
RAAQ	67 883	—	—
SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC	740 856	81 600	—
SAQ	199 701	—	—
LOTO-QUÉBEC	105 729	—	—
Total public monopolies	53 023 758	20 204 600	19 866 000
Total strategic enterprises and public monopolies	56 142 966	21 602 588	20 527 254
% held by public monopolies	94.4	93.5	96.8

* Or closest fiscal year end. Preliminary unaudited data. Guaranteed loans are included in the amounts of long-term debt.
(Sources: Financial statements of Crown corporations.)

Table 2.3
Strategic Enterprises Employment Position as at March 31, 1985

Crown corporation	Parent corporation	Subsidiaries ¹	Holdings ²	Total
SGF	34	6546	15408	21988
SOQUIA	20	226	5975	6221
REXFOR	753	1253	1362	3368
SIDBEC	3402	—	—	3402
SQT	10	865	950	1825
SNA	22	1761	8	1791
SOQUIP	77	53	1433	1563
MADELIPÊCHE	400	600	—	1000
SOQUEM	140	606	217	963
SEPAQ	—	—	—	—
Total	4858	11910	25353	42121

¹ Holding higher than 50%.

² Holding between 20% and 50%.

(Source: Ministère des Finances)

l'assurance automobile du Québec and the Commission de la santé et de la sécurité du travail. In terms of jobs, Hydro-Québec with 18 792 and the SAQ with 2 389 are major employers.² Nevertheless, employment in these corporations represents a slim proportion of total employment in Québec which comes to some 3 million jobs. Compared with total employment in the public and parapublic sectors in Québec, which account for some 300 000 jobs, employment in the strategic enterprises and public monopolies represents approximately one job in six.

It is more difficult to grasp precisely the economic importance of the third group of Crown corporations, comprising thirty corporations in the subsidized sector. This stems from the fact that these corporations cover a range of highly varied activities such as assistance to industrial financing (Société de développement industriel), operation of ferry services (Société des traversiers du Québec) and museum management (Musée d'art contemporain de Montréal). Most of these corporations are involved in management in the cultural sector and State facilities and equipment. With the exception of a few, among them Radio-Québec, most have very few employees. In all they employ fewer than 3 000 persons. An analysis of these corporations appears in Chapter VI.

2. The Role of Crown Corporations in Québec's Economy

A simple but effective way of grasping the role of Crown corporations in the economy is to trace their origin. Five reasons have been identified in economic literature on Crown corporations:³

² Data referring to March 31, 1985.

Source: Ministère des Finances. The employment situation for Hydro-Québec includes 714 employees at the subsidiary level and 232 in various other operations in which the corporation has an interest.

³ See among others Bertrand Jacquillat, *Désétatiser* op.cit. I, *l'entreprise publique en Europe (Allemagne fédérale, Autriche, Belgique, France, Grande Bretagne, Irlande, Pays-Bas)*, Annals of Public and Co-operative Economy, Number 3, July-September 1985. In a Canadian and Québec context see M.J. Trebilcock and J.R.S. Prichard, op.cit., pp. 39-74. R. Barbe, op.cit., pp. 17-69. Pierre Fournier, *Les sociétés d'Etat et les objectifs économiques du Québec: une évaluation préliminaire*, Québec, Éditeur officiel du Québec, 1979.

I- Economic nationalism, also known as "nation-building"⁴ Structural interventions for economic development come under this category.

II- Social democracy which advocates government ownership of means of production, particularly those of strategic importance.

III- Major economic or social crises sometimes call for specific government action. This was the case for the depression of the 1930s and in particular the Second World War which gave rise to many Crown corporations.

IV- Salvaging of a firm about to cease operating whose maintenance is considered a priority by the political system.

V- Public management of a field of activity in the name of a certain vision of doing things, generally by a State monopoly (for example, government lotteries).

We have classified the seventeen strategic enterprises and public monopolies in Québec according to this typology, in terms of their year of creation or their takeover by the State. Although there could be differences of opinion about the classification of certain of these corporations, the following table gives a general view of the reasons calling for their creation.

⁴ Tom E. Kierans, *Commercial Crowns, The Canadian situation calls for privatization if necessary but not necessarily privatization*, Policy Options, Volume 5, Number 6, November 1984, p. 27. The author describes the concept of "nation building" in the Canadian context as follows: "Canada's commercially oriented Crown Corporations were concerned and have matured in a very different environment from that shaping Britain's nationalized industries. Conceptually, the Canadian rationale was most neatly captured by Professor Harold Innis's "nation-building" characterization. In sum, the country's sparse population, inhospitable climate, geographic enormity and inadequate capital base mandated public-private cooperation and a role for public enterprise, initially to survive but then to bind the nation, to develop and market its resources and to retain some measure of the profits and rents." See also M.J. Trebilcock and J.R.S. Prichard, op.cit., p. 53.

Table 2.4

Reasons for Creation of Strategic Enterprises in Québec
 (including certain subsidiaries and holdings)

Year of creation or takeover	Economic nationalism	Social democracy	Crisis	Salvage operation	Public management
Before					SAQ Hydro-Québec ⁵ (expropriation)
1960-1965	Hydro-Québec SGF Sidbec Caisse de dépôt Soquem				
1966-1970	SOQUIP			Rexfor	Loto-Québec
1971-1975	SOQUIA				
1976-1980	SNA	RAAQ		Madelipêche	
1981-1985	Domtar SQT Albecour (Pechiney)			Pétromont Québécair	SIQ SÉPAQ

Strategic enterprises have generally been created in Québec for reasons of economic nationalism. In fact, it was the general support of the Francophone majority in Québec which maintained the political consensus behind such initiatives. On the other hand, the few cases of salvaging of firms which turned out to be economic or political failures have somewhat weakened this consensus.

Furthermore, public monopolies were set up more often for reasons of public management than for those of economic nationalism. Social democratic ideology is found as a reason for the creation of a public monopoly in only one case, i.e. the establishment of the Régie de l'assurance automobile du Québec. In 1978, there was no doubt that the constitution of the RAAQ was seen as a symbol of the then popular social democracy.

3. Public Enterprises Elsewhere

Among the provinces of Canada, Québec is in first place, and by a considerable margin, with regard to the assets held by Crown corporations.⁶ It stands out as well by the size of its strategic enterprises. The only

province that is comparable in this regard is Saskatchewan, particularly in the natural resources sector.⁷

We have analysed the Ontario situation in detail since it is a province which compares with Québec in terms of size and industrial structure. While we found ten strategic enterprises in Québec, we identified only two of any size in Ontario, that is, the Ontario Energy Corporation and the Ontario Northland Transportation Commission. The first can be compared with SOQUIP in many respects and is a recent creation. The main assets of this corporation consist of a 25 % interest in the oil company SUNCOR. The market value of this investment probably stands somewhere between \$138 and \$275 million for an acquisition cost of \$650 million.⁸ The main activity of the Ontario Northland Transportation Commission is the management of a group of transport services in the Northern part of the province. This corporation also supplies telecommunication services in this region. The assets of this corporation stood at \$206 million as at December 31, 1984.

The federal government has also been active in creating Crown corporations, particularly strategic enterprises. Air Canada, CN, Petro-Canada and the Development Corporation are the result of Canadian "nation-building". The Second World War also led to

⁵ Hydro-Québec was established in 1944. The Act creating it provided for expropriation of three private enterprises: Montreal Light, Heat and Power Consolidated, Montreal Island Power Co. and the Beauharnois Light and Power Co. In 1963 Hydro-Québec acquired by mutual agreement the common shares of seven electricity production and distribution companies. R. Barbe, *Les entreprises publiques*, op.cit., pp. 132, 144.

⁶ The assets held by Québec's Crown corporations grew rapidly after 1963 and have exceeded those of Ontario since 1966. R. Barbe, *Les entreprises publiques*, op.cit., p. 84.

⁷ Crown corporations in the natural resources sector are: Saskatchewan Minerals, Saskatchewan Forest Products Corporation, Saskatchewan Oil and Gas Corporation (SASKOIL), Saskatchewan Mining Development Corporation and Potash Corporation. Saskatchewan's Crown corporations were created primarily under governments favouring State intervention, that is the CCF (later the NDP) between 1944 and 1964 and more recently, under the NDP government between 1971 and 1975. R. Barbe, *Les Entreprises publiques*, op.cit., pp. 49-52.

⁸ *Financial Post*, April 30, 1986.

the creation of a number of Crown corporations most of which had a limited life span.⁹

Elsewhere in the world, the presence of public enterprises varies according to the activity sectors considered. However, for each sector, there are jurisdictions where private enterprise is predominant. There is therefore no structural reason inherent in certain sectors of the economy that would justify the presence of public enterprises. The best example is furnished by the United States where there are very few public enterprises either at the federal level or at the State level. Although the Tennessee Valley Authority and Bonneville Power are two large electricity production corporations held by the federal government, less than 20% of electricity production in the United States is assured by public enterprise.¹⁰ The two other public enterprises of any importance, Conrail and Amtrack, are the result of recoveries by the federal government. We note finally that about twenty-five States have lottery corporations and a few have monopolies for the distribution of wine and spirits.

4. The Retreat of Crown Corporations: a Worldwide Phenomenon

In the space of a few years privatization of public enterprises has become a general political phenomenon in most industrialized countries and in a fair number of developing countries. Here is a partial list of the countries in which privatization programs are taking place.¹¹

Great Britain	Holland	Brazil	Philippines
Canada	Germany	Chile	India
United States	Austria	Singapore	Pakistan
Mexico	Spain	Malaysia	South Korea
France	Portugal	Indonesia	Turkey
Italy	Japan	Sri Lanka	Senegal
Belgium	Australia		

The undisputed leader of this movement is Great Britain. During the 1979-1985 period, twelve Crown corporations of considerable size were fully or partially denationalized, resulting in the British Treasury taking

in over 12 billion pounds. The most spectacular success was the sale in 1983 to the public of 50.7% of the shares of British Telecom. The proceeds from this public distribution of shares, the largest ever realized, was 3.9 billion pounds.

Following these transfers to the private sector, the contribution of the nationalized sector to GDP dropped from 10% to 6.5%. It is expected that when the denationalization program is complete, over 600 000 jobs will be transferred to the private sector.¹²

In Canada, privatization programs have been established by the federal government and by several provincial governments including those of British Columbia, Saskatchewan and Ontario. The Ontario program is very recent. The action taken to date is as follows. An agreement in principle has been concluded with the Lavalin group for the sale of Urban Transportation Development Corporation Ltd., a corporation working in the development of urban transit networks. The Ontario government has also decided to sell all the assets of the Ontario Energy Corporation, in particular its interest in the oil company SUNCOR. Finally, at the beginning of April 1986, the Ontario government announced that IDEA, a venture capital Crown corporation, would cease operations in June 1986.

The growing popularity of privatization programs reflects the mechanisms of the political process and its distribution as well as the major structural problems of Crown corporations. The success of the denationalization policy in Great Britain has impressed a great many governments. They have discovered in privatization a realizable popular policy. In addition, the commercial success of the denationalized enterprises is tangible proof of the value of these policies. The movement would not have spread in such spectacular fashion if it did not prove an adequate response to the basic problems posed by Crown corporations. As economic and legal organizations, public enterprises must reconcile many contradictory objectives, which they do not always do well. Their economic performance suffers and is reflected in low profitability and constant appeals for funds from their shareholder. Finally, the budget restrictions faced by governments for some years now have led to a much more circumspect examination of the appropriateness of allocating to these corporations financial resources which could be better used elsewhere.¹³

9 See R. Barbe, *op.cit.*, pp. 21-24. Between 1940 and 1945 the federal government created over 30 Crown corporations. As early as the first year after the war, 15 of them ceased operations. A few however have been kept, among others Polymer Limited which became Polysar Limited and Eldorado Mining and Refining Limited which became Eldorado Nuclear Limited. On the same subject see Sandford F. Borins "World War II Crown Corporations: their Functions and their Fate", in *Crown Corporations in Canada: The Calculus of Instrument Choice*, *op.cit.*, pp. 447-475.

10 Peter Navarro, *The Dimming of America*, Cambridge, Ballinger Publishing Company, 1985. The private sector furnishes over 80% of electric power in the United States. Federal public enterprises and rural cooperatives supply the rest. It is anticipated that increased electricity production will come essentially from the private sector. However, the author poses as a condition for private sector viability, an in-depth reform of the regulations governing the industry.

11 Even in Communist China new economic policies are calling into question the dogma of Socialist ideology. Dick Wilson, *The Privatization of Asia*, *The Banker*, September 1984.

12 *Privatization of Crown Corporations: Orientation and Prospects*, *op.cit.*, p. 68.

13 The industrial policy of the French Socialist government illustrates this point. The growing needs for funds on the part of declining enterprises of the public sector have reduced government spending on research and development. Bela Balassa, *French Industrial Policy under the Socialist Government*, *The American Economic Review*, Vol. 75, No. 2, May 1985.

The causes of the disenchantment of government vis-à-vis public enterprises are therefore fairly widespread. This universality should put the reader on guard against an analysis of Crown corporations based essentially on local factors. Privatization is a policy that is grown out of the structural shortcomings of public enterprise. And this is what an analysis of the Québec situation shows.

**STRATEGIC
ENTERPRISES**

III – Strategic Enterprises

The Québec government has clearly indicated its determination to begin the privatization process giving priority to Crown corporations of a commercial or industrial nature. Most of these corporations are strategic enterprises working in competitive markets and pursuing profit motives. This chapter deals with the ten strategic enterprises already identified.

This chapter is divided into four sections. The first deals with the causes of their creation. The second assesses the general performance of these enterprises in relation to the principal objectives sought. The third is devoted to a summary analysis of the particular position of each one. And we conclude in the final section.

1. Generalization of the Secular Arm

Québec's strategic enterprises grew out of the Quiet Revolution and the view of development governing the elaboration of government policy for economic development after 1960.¹ This view was based essentially on the conviction that the State, that is the Québec government, should compensate for the inadequacies of the free play of market mechanisms and direct human and financial resources into the pursuit of collective development objectives through Crown corporations.

The shortcomings of the market as perceived by the government were of two orders. First, Québec's development needs required more immediate, more vigorous action than the market would have induced. Through its Crown corporations, the government could thus orient development in terms of its own priorities and, if it was deemed appropriate, accelerate the level of investments in certain sectors.²

Furthermore, the government intended to give Francophone Quebecers a fair place in the administrative machinery of Québec's economy. Crown corporations were thus perceived as privileged vehicles for the promotion of Francophone executives. This objective must be seen in its broad sense: a learning environment for young executives, taking control of companies with an

Anglophone tradition, maintaining control of certain Francophone enterprises, etc. The Crown corporation sector was thus a special avenue for development and promotion for Francophones in Québec's economy.

An example of this twofold objective was the creation of SOQUEM in 1965. Here are two excerpts from the debates on second reading.

The mining exploration which is carried out in Québec is basically irrational, incoherent and dependent on priorities promoting the interest of large corporations — as is their role — which are not authentically, in truly autonomous fashion, Québec companies.

If we now consider the human effects and the effects from the point of view of management, of strengthening our society in this area, the [relatively] marginal industry which Québec has been able to set up in the private mining sector lacks management competence.

(René Lévesque, Débats de l'assemblée législative 1965, pp 2622-2623)

Economic nationalism is a largely legitimate reason for government action in our societies. All industrialized societies are somewhat envious of Japan and its MITI (Ministry of International Trade and Industry) which in miraculous fashion has pushed nation-building to an astonishing level. The "Buy America Act", the Canadian industrial policy, the French dream of industrial renewal, are all attempts at national reconstruction with which economic aspects of the Quiet Revolution may be compared.

In Québec as elsewhere, things deteriorated when the idealistic intervention of the Quiet Revolution came up against economic reality. The dream of a Québec iron and steel complex had to pass through the purchase of the outmoded installations of Dominion Steel Corp., at the very least a mortgaged beginning. SOQUEM, which was to reorganize the Québec mining sector, at government instigation, made its largest investment in a salt mine in the Iles-de-la-Madeleine. More recently, the Société québécoise des transports, the Québec government tool for acting structurally in this sector, fell heir to Québécoir at its birth. In a word, economic nationalism must sometimes yield to salvaging firms in difficulties. We cannot honestly hold Crown corporations accountable for the financial setbacks stemming from these salvage operations remote controlled by the government. That would be a case of sacrificing the messenger.

1 For a historical review of the creation of Crown corporations see Kenneth McRoberts and Dale Postgate, *Québec Social Change*, Toronto, McClelland and Stewart, 1976. Léon Dion, *Nationalismes et politiques au Québec*, Hurtubise HMH, 1975.

2 For a review and criticism of the usual economic justifications for creating Crown corporations, see Richard Carter, *Les entreprises publiques, pourquoi et pour qui?*, Canadian Public Administration, Vol. 26, Summer 1983, pp. 239-254.

2. Twenty-Five Years of Strategic Action

Table 3.1 gives the cumulative financial results for all ten strategic enterprises. These results are hardly brilliant. Among the ten, six are in a deficit position, and two of them, Sidbec and SNA, even have a negative net worth. Taking the results of these two latter enterprises into account, the accumulated deficit for all ten strategic enterprises totalled over \$1 billion as at March 31, 1986.

Some claim that the government must consider factors other than mere financial return to assess the performance of Crown corporations. On this basis, a lower yield would be justified in view of non-commercial objectives sought.³ In this section, we shall review a few of the objectives cited for justifying the presence of strategic enterprises. This review will enable us at the same time to check the pertinence of such objectives in Québec in 1986.

• Creation of Québec enterprises

In 1960, there were very few large firms directed by Francophone Quebecers and there was no obvious group ready to take over. Marine Industries in the industrial sector, the Canadian National Bank, the Provincial Bank and the Desjardins Group in the financial sector were the jewels of French-Canadian enterprise. The constitution of a Crown corporation such as the SGF could be perceived as a significant addition to the French-Canadian private sector.

Today the reality is very different. There are some twenty enterprises controlled by Francophones, the assets in which total at least \$100 million. In addition, there is a dynamic large group ready to carry on. Last year more than forty new firms were listed on the Montréal Exchange and 1986 promises to be even more spectacular. It is not that non-Québec firms have disappeared from Québec's economic scene, but rather that a large number of big Québec firms have emerged or are in the process of doing so.

A number of observers are of the opinion that the addition or removal of one Crown corporation will not make any significant change in the place and importance of Québec enterprise in the economy of Québec.

• The presence of Francophones in the workings of the economy

The remarkable progress of Francophones in the higher echelons of the private sector of Québec's economy has been sufficient in the past twenty-five years for this problem to fade from political discussion in Québec. Marked efforts, particularly in university education and the great interest of Quebecers for administration as a field of study, have been among the main factors determining the rise of Francophone executives. For some years now, Québec has been training the largest number of administrators of any province in Canada.⁴ The political and social pressures of the past twenty-five years have contributed to opening up the business world to Francophones.⁵

Crown corporations have also played a major role in the development and promotion of Francophone executives. We refer to Hydro-Québec among other things for it enabled Francophones to exert economic power in the forefront of a sector which, at the time, was highly strategic. The same was true of the SGF in its early years and for the Caisse de dépôt more recently. SOQUEM and SOQUIP also offered Francophones attractive networks in specialized fields. Although other factors more basic and of broader scope also played a role, we must not neglect the contribution of Crown corporations in this area.

• Structural impact on the economy

Most Crown corporations were established to bolster the structures of Québec's economy. However, an examination of the fields of activities of the six Crown corporations, summarized in Table 3.2, is indicative of the political preferences that have made themselves felt over the years.

3 See Clive S. Gray, "Toward a Conceptual Framework for Macroeconomic Evaluation of Public Enterprise Performance in Mixed Economies", in *Public Enterprises in Mixed Economies, Some Macroeconomic Aspects*, International Monetary Fund, Washington, D.C., 1984, pp. 35-109; the author distinguishes between commercial and non-commercial objectives sought in establishing public enterprises. Non-commercial objectives are classified as follows: economic stabilization, economic growth, income redistribution, increased control of the national economy and other secondary objectives such as obtaining greater sectorial information for regulatory purposes. In this study the author proposes a conceptual framework for analysing the relative performance of public enterprises in terms of commercial and non-commercial objectives.

4 For 1983, Québec granted 4 176 bachelor's degrees in administration, that is 36.4 % of all such degrees awarded for Canada. In the same year Ontario accounted for 3 805 degrees, or 33 % of the total. In 1979, Québec was already ahead of Ontario with 3 042 bachelor's degrees compared with 2 216 for Ontario. Source: Statistics Canada [Cat. 81-229], see *Les Affaires*, November 23, 1985.

5 André Raynauld and François Vaillancourt, *L'appartenance des entreprises: le cas du Québec en 1978*, Dossiers du Conseil de la langue française du Québec, No. 19, Québec, Éditeur officiel du Québec, 1984. This study covers the period 1961 to 1978.

Table 3.1
**Investment, Accumulated Surplus (Deficit) and Net Equity of the Québec Government
 In Strategic Enterprises as at March 31, 1986***
 (in thousand of dollars)

Strategic enterprise	Listed government investment as	Undistributed earnings as	Government equity	
	at March 31, 1986	at March 31, 1986	March 31, 1986	March 31, 1985
Sidbec	643 268	(838 499)	(195 231)	(183 374)
SGF	338 768	85 788	424 556	354 419
SNA	131 894	(247 635)	(115 741)	(39 912)
SOQUEM	110 600	(43 417)	67 183	152 592
SOQUIP	203 900	19 045	222 945	214 650
Rexfor	96 042	7 789	103 831	89 419
SQT	43 680	(21 622)	22 058	6 709
Madelipèche	16 419	(3 686)	12 733	9 542
SÉAPO	27 375	225	27 600	—
SOQUIA	56 100	(3 978)	52 122	55 304
Total	1 668 046	(1 045 990)	622 056	659 349

* Or closest fiscal year end
 Unaudited preliminary data

[Sources: Crown corporation financial statements.]

Table 3.2
Activity Sectors of Strategic Enterprises

Sector	Enterprises
Natural resources	SOQUEM, SOQUIP, REXFOR, SNA
Heavy industry	SGF, SIDBEC
Agro-food	SOQUIA, MADELIPÈCHE
Transport	QUÉBÉCAIR
Recreation	SÉAPO

The strategic enterprises work in sectors which are less and less critical for the future development of Québec's industrial structure. For example, the latest action (SÉPAQ) was taken in the recreation sector. In particular, the government has abstained from any intervention in the electronics industry, in computer-based industries and in financial services, sectors which will be more structuring between the present and the year 2000. Public investment, in Québec as elsewhere, has been allocated more to mature or declining sectors than developing sectors. Furthermore, the analysis in the following section will show that the objectives of most strategic enterprises of having a decisive structural impact on the industry where they were working have remained largely without significant result.

• Control of major enterprises

A number of Crown corporations have proved control vehicles for keeping the ownership of major enterprises in Québec. The SGF (Marine Industries, Domtar, Donohue), SOQUIP (Gaz métropolitain), SQT (Québécair), and SOQUEM (Sullivan) have maintained Québec control. This is a relatively efficient and simple method to use if Québec control of certain large enterprises is a major objective. However, there are other ways and the recent multiplication of large firms under Québec control is tangible proof. In this regard, neither the corporate

management nor the alliances which can be formed within the Québec business world should be underestimated. Moreover, Québec control should not be made an absolute objective. A certain degree of external control is normal in Québec as long as the reverse movement takes place, that is control by Québec interests of enterprises outside its borders and of comparable size.

• Realization of major projects

The Crown corporation is often the secular arm preferred by government to carry out its large-scale projects, as it offers a flexibility which no government department can claim. But there are other means for attaining this objective. Contracting out for a fixed price may prove just as valid. Political reality being what it is, there is no doubt that the government will in future wish to start up major projects. It will then have to ask itself whether action through Crown corporations is the most efficient means of realizing its objective.

• Public management

The government decided to entrust management responsibilities to Crown corporations for activities incompatible with internal government management methods. This was the case for example for Mont Ste-Anne Park, for whose management SÉPAQ was made responsible.

Nevertheless it must be acknowledged that its very nature means a Crown corporation cannot claim to have the same management rules as private enterprise; at most this formula enables it to be free of the strict rules of the Conseil du Trésor. Furthermore, a Crown corporation suffers from being duplicated, when major problems arise, by parties who appeal to the Minister assigned to it, who often finds himself constrained to intervene. A corporation problem then becomes a government problem. A strike in a Crown corporation is discussed in the National Assembly by the Minister who, by law, has the power of settling it. This situation of fact changes the balance of power between the Crown corporation and other parties involved, and has repercussions on the efficiency of its operations.

• A very particular formula

In this section we have analysed the use of the Crown corporation as a means of action to realize government objectives or organize action perceived to be necessary. We may or may not be in agreement with the justification for this action. This is the first level of the debate about Crown corporations.

However, we may also raise questions about the efficiency of the very formula of the Crown corporation. It is a legal structure borrowed from the private sector, but working in a very different context. Thus it generally has a single shareholder, the government. It is responsible to a specific Minister assigned to it. And it maintains many special relationships with senior government officials.

While experience shows that day-to-day management is generally carried out with relatively great autonomy, major strategic decisions depend on the shareholder, or rather the government with its multiple facets and centres of influence. In such a context, the autonomy of the board of directors of a Crown corporation is somewhat limited. When the issue becomes strategic, it is the government which, in the final analysis, takes the responsibility.

On the financial level, the presence of the government eliminates what economists call the risk of bankruptcy. This ultimate protection against the free play of market forces fundamentally distinguishes the Crown corporation from the private sector firm. The Crown corporation also benefits from the government presence for easier access to loans. Generally speaking, the debt-equity ratio of Crown corporations is higher than for similar enterprises in the private sector. Corporations such as

SGF, SOQUEM, Sidbec and Québecair in particular have maintained a relatively high debt-equity ratio.

On the fiscal level, Crown corporations benefit from the fact that they are exempt from income tax, both federally and provincially.⁶ On the other hand, the privileges stemming from their status as a Crown agent have undergone a gradual regression as a result of the adoption of many legislative measures. The tendency for those Crown corporations that are government agents seems to be to no longer invoke their prerogatives under public law, even though these are still recognized.⁷

Crown corporations with a commercial or industrial role are thus subject to rules of the game that differ greatly from those governing enterprises in the private sector. The legal form may be very similar, but the rules are quite different, hence the possibility of a major differential in their performance.

3. The Ten Strategic Enterprises

In this section we present the main basic questions about the position and performance of each of the ten strategic enterprises. We also sketch a brief picture of each of them.

• SOQUEM

SOQUEM was created in 1965 to step up mining exploration in Québec and offer Francophones a special road for promotion in this industry. Its assets total \$201 million and its debts \$101 million. The government has already announced that part of these assets are to be privatized, mainly its gold-bearing properties, through a new mining corporation to be known as CAMBIOR, most of whose shares will be held by the public. Following a public distribution of shares in CAMBIOR, the percentage of capital stock held by SOQUEM will be between 30 and 40%. SOQUEM has committed itself to reducing, gradually and in orderly fashion, its holdings of shares in CAMBIOR.

6 This tax exemption applies among others to a Crown corporation whose shares are owned in a proportion of at least 90 per cent by Her Majesty in right of Canada or a province or municipality of Canada. The same is true of a subsidiary wholly controlled by such a Crown corporation, except a subsidiary entirely controlled by a Crown corporation prescribed by law. Income Tax Act, S.C. 1970-71-72, c. 63, sec. 149(17)(d). Taxation Act, R.S.Q., c. I-3, s. 985.

7 R. Barbe in *Les entreprises publiques*, op. cit., pp. 603-673, analyses the legal consequences of the status of agent of the Crown held by certain Crown corporations. He concludes his analysis as follows: The various legislative measures mentioned indicate that an erosion of this preferential status is going on. This shift toward private law appears to be inevitable if we consider recent legislation, orders-in-council and discussions on the subject. p. 673.

With the transfer of these gold-bearing properties, SOQUEM will retain as main component of its assets, aside from the shares held in CAMBIOR, ownership of the Mine Seleine, a salt mine on Îles-de-la-Madeleine, whose sale is anticipated shortly by the corporation's administration, and a number of exploration properties as well as an interest in a peat bog at Sept-Îles.

The government has invested over \$110 million in SOQUEM. Financially this has not been a profitable investment. But the lack of profit is explained by a single disastrous investment; SOQUEM's results reflect a loss of about \$100 million in Mines Seleine.

Structurally, SOQUEM's contribution to exploration has become marginal, with less than 2 % of exploration expenses in Québec in 1985.⁸ It is generally agreed in the ministère de l'Énergie et des Ressources that other measures, such as fiscal incentives in the field, have now a much more pronounced impact on the level of mining exploration in Québec.

The mining property constituted by SOQUEM and transferred to CAMBIOR draws its main value from the Mine Doyon, 50 % owned by SOQUEM. This was a discovery made in 1975 which SOQUEM developed in association with Lac Minerals Ltd, a Toronto mining enterprise very active in Abitibi.

Has SOQUEM attained the objective of bolstering the Francophone presence in the Québec mining world? There is no doubt that the objective has been reached. What is more difficult to assess is the specific contribution made by SOQUEM. There will never be a clear answer to the question. The efforts made with regard to university training and the ferment of activity which in Abitibi have gone with rising gold prices since 1970 have also been significant in this penetration of the mining world by Francophones.

Is there a role for SOQUEM in the future? The possibility of a role in exploring territories in Québec where the private sector is not very active has been suggested. SOQUEM would be responsible for exploring in areas where risks are very high and the private sector refuses to go. The zones mentioned most frequently are the Labrador Trough, the James Bay area and the region between Matagami and Chibougamau.

In view of this possibility it is appropriate to ask whether the Crown corporation is the best means of tackling the exploration of these territories. For purposes of analysis, we can agree that the government may wish to

allocate a certain annual budget to exploration of these territories. Is it more efficient to channel this budget into SOQUEM or, through subsidies or fiscal incentives, into private exploration companies which have multiplied in Québec. On the basis of an equal budget, would SOQUEM obtain better results than these companies? This is the basic question which must be asked by the government before giving SOQUEM a residual role. The committee is of the opinion that given the existence of more efficient alternatives for reaching this objective, there is no reason to reserve such a residual role for SOQUEM. Therefore, the Committee believes that all of SOQUEM's activities should gradually be transferred to the private sector.

• SOQUIP

This corporation was established in 1969 for the purpose of promoting the search for and exploitation of hydrocarbons in Québec, that is petroleum and natural gas. SOQUIP was to be in the hydrocarbon field what SOQUEM already was in the mining sector.⁹ Exploration in Québec is now a thing of the past. The main activities of SOQUIP are now gas and petroleum exploration, particularly in the Canadian West, and control of natural gas distribution in Québec, through joint control with the Caisse de dépôt of Gaz Métropolitain Inc. On March 31, 1985, assets stood at \$437 million compared to \$190 million for the previous year. The long-term debt was \$178 million compared to \$19 million for the previous fiscal year. Net profits for the year came to \$7.6 million.

The significant increase in the assets and debt of SOQUIP in 1984-1985 is due to the acquisition of Sundance Oil Company, a firm owning major natural gas reserves in Western Canada. Essentially, SOQUIP paid \$195 million for the assets of the Sundance Oil Company which it merged with its own exploration operations in the West.

The acquisition of new natural gas reserves must be considered in relation to the second main sector of activities of SOQUIP, the control of natural gas distribution in Québec. Through various transactions in 1981 and 1985, SOQUIP obtained about 20 % of the shares of Gaz Métropolitain.¹⁰ Acquisition of this block of shares and maintenance of SOQUIP's holdings at this level have resulted in a capital outlay totalling \$58 million.

The justification for maintaining SOQUIP as a Crown corporation must be analysed in the light of the diversification of its activities. The investment in Sundance Oil Company can only be justified as part of an integration of SOQUIP's activities in gas distribution. In itself,

⁸ SOQUEM's share in mining exploration expenses in Québec was 15.8 % in 1966, 16.1 % in 1967 and reached a maximum of 22.3 % in 1968. For 1985, SOQUEM's share represented only 1.6 % of total exploration expenses. (Source: Annual reports of SOQUEM and an annual publication of the ministère de l'Énergie et des Ressources entitled *Industrie minière du Québec*.)

⁹ Journal des débats Assemblée législative, 1969, p. 4162.

¹⁰ The Caisse de dépôt controls 22 % of the shares of Gaz Métropolitain.

the Québec government has nothing to do with owning gas reserves in the West, particularly in the present circumstances. In addition, the price paid for Sundance Oil Company has proven to be a costly investment, but SOQUIP is not the only enterprise to have paid a high price. However, we may well ask whether it is the role of a Crown corporation to acquire exploration properties and to speculate thereby on hydrocarbon price developments. Many governments are concerned about the strategic aspects of hydrocarbon supplies and have therefore purchased oil exploration companies. However, several other avenues are available. The recent decision of the Ontario government to sell the interest held by the Ontario Energy Corporation in SUNCOR is an example of the questioning of the strategic character of such investments.

We should also ask about the strategic necessity for the Québec government to control through SOQUIP natural gas distribution in the province. Even in the eventuality of a growing importance of natural gas in the energy picture in Québec, why would Québec's private sector not be capable of this as is the case, for instance, in Ontario? The Committee believes that Québec's economy is now sufficiently well developed to enable the private sector to assume this responsibility.

• *The Société générale de financement*

The Société générale de financement is one of the most powerful symbols of the Quiet Revolution. Created in 1962 as a mixed corporation, it was taken over by the government in 1973 because of its mediocre results. The SGF had, and still has, a mandate to constitute, through acquisition and direct investment, a powerful industrial group in sectors that are a priority in Québec's economy.

As at December 31, 1985, the SGF controlled assets worth over \$1.4 billion on a consolidated basis. Its subsidiaries had a consolidated turnover of \$700 million. This places the SGF effectively among the first rank of Québec's Francophone industrial groups, ahead of Bombardier, Canam Manac and Papier Cascades, in particular.

The consolidated assets of SGF proper come to \$400 million. Its subsidiaries and affiliated enterprises employ some 22 000 persons. The activities of the SGF are divided among the five main sectors described in Table 3.3.

The SGF has also invested in Novacap Inc. and in Nouveler Inc., two investment corporations, and in the forestry products sector where its investments are consolidated in a public corporation, Dofor Inc., of which it owns 90.7 % of the common shares. Finally, the SGF owns Industries Tanguay Inc., a company manufacturing forestry equipment.

Nothing can better illustrate the highs and lows of the Société générale de financement since its beginnings than a review of its investments. From the outset, the SGF was confronted with a harsh reality. Its role was interpreted in a sufficiently broad fashion by its main shareholder, to justify the takeover of firms facing difficulties or critical situations. The early years of SGF activities were also marked by an overly great dispersion of effort.¹¹ In a word, the constitution of a powerful industrial group, an objective of the SGF since its beginnings, has always been subject to the uncertainties of expeditious government will with regard to industrial policy.

Table 3.4 presents the main investments of the SGF since its beginnings. The enterprises shown in **bold** are in the current portfolio of the SGF.

In the past few years, a gradual rationalization of the SGF portfolio has been noted. Dofor has become a financing vehicle. The manufacturing enterprises of medium size, such as Volcano, Artopex and Forano have been sold (and they are much better off).¹² The Albecour project fits into a strategic decision to penetrate in the aluminum sector. On the other hand, the Bio-Mega project seems rather more improvised. In addition, no long term view seems to have placed Marine Industries on a rational basis in the SGF after 20 years. In the case of Pétromont, the SGF, more or less successfully, is attempting to draft Québec strategy in the petrochemicals field.

11 In an assessment of the first years of operations, the general administration of the SGF commented as follows on the acquisitions made until that time: Among the sixteen acquisitions made by the SGF since its beginnings, only two could be integrated with others. This means we scattered our efforts into fourteen different types of enterprises. ... with the only common denominator a human capital whose experience is not necessarily interchangeable. Jean Deschamps. Annual report of the SGF, 1971.

12 **Volcano** was sold for \$6.8 million in 1984 to three of its executives. Since then, the corporation has made three major acquisitions including one in the United States. It is anticipated that consolidated sales will rise from \$41.5 million in 1985 to over \$90 million in 1986. The estimated net profits for 1986 should be some \$4 million, that is double the previous year. (*La Presse*, April 3, 1986).

Forano was sold in August 1984. The buyers were an executive of the firm in association with two executives of an Esso subsidiary. At the time of the sale of Forano by the SGF, it registered a loss of about \$5 million on sales of \$20 million. In 1986, sales amounted to \$32 million and the corporation now shows a profit. Forano recently acquired MTL Services Forestiers Ltée, a competitor. (*Les Affaires*, March 1, 1986).

Artopex, also sold during the SGF's 1984 fiscal year estimates for the current year a minimum increase of 25 % in sales and 40 % in its net profits. In 1985 sales came to \$32 million and net profits to \$2 million, a rise of 56 % over the previous year. (*Les Affaires*, February 1, 1986).

Table 3.3
Activity Sectors of the SGF

Forestry products::	Domtar, Donohue, J. E. Therrien
Energy facilities and heavy construction::	Marine Industrie, Cegelec
Aluminum:	Albecour (Pechiney)
Pétrochemicals:	Pétromont, Alcools de Commerce
Biotechnology:	Bio-Mega

Table 3.4
Current and Past Investments of the SGF

1. **Takeover or recovery of mature enterprises**
 - Marine Industrie** (energy equipment, naval construction)
Sogefor, MAKI, Albert Giguère (forestry products)
Artopex, Bonnex, Montel (furniture)
David Lord, Biscuits Stuart (food sector)
Volcano, Forano, (metal fabricating)
Industries Valcartier (armaments)
 - Domtar, Donohue, J. E. Therrien** (forestry products)
 - Industries Tanguay**, (forestry products)
John Meunier (water treatment equipment)
 - Pétromont, Alcools de Commerce** (pétrochemicals)
Engrais du St-Laurent, Tricot LaSalle (miscellaneous)
2. **Development of new strategic enterprises** Cegelec, BG Checo (energy equipment)
SOMA (automobile assembly)
Nouveler, Novacap (investment companies)
Bio-Mega (biotechnology)
Albecour (Pechiney) (aluminum works)

The government's assets in the SGF stand at over \$400 million. This investment represents an annual opportunity cost of some \$40 million (at an opportunity rate of 10%) for Québec's taxpayers. On a realizable value basis, this opportunity cost would obviously be much higher. Is the structural contribution of the SGF worth this cost, considering that there are other ways of achieving the same objectives?

Let us consider the case of Pétromont. Direct subsidies for this company as of March 31, 1986, totalled \$133.4 million, \$93.4 million coming from the gouvernement du Québec. Is it necessary for the Québec government also to be the owner?

Of course, the observation point is critical. If we look back toward the past, the ownership of Pétromont can easily be explained and justified. If we look forward, this ownership is not necessarily justified. The existence of a petrochemical industry in Québec is not absolutely dependent on the presence of the government as owner.

In the same perspective we can reach similar conclusions for Marine Industries, Bio-Mega and the other investments of the SGF. The case of Dofo is also interesting. This company assures Québec control of two major paperworks (Domtar and Donohue). Québec

control of these enterprises does not necessarily demand that it be assured by a Crown corporation. Other firms with thoroughly Québec roots could take on this task.

The SGF interest in the Bécancour aluminum works raises the problem of the secular arm. It is not the Committee's responsibility to pronounce on the appropriateness of a Québec government financial interest in such projects. Given the government will to realize the project, was the SGF participation the most efficient means of assuring this realization? Would it not have been possible to interest a Québec partner in the private sector, particularly if the government had assumed part of the risk as it does now through the SGF? In a word, does partial assumption of a risk necessarily imply ownership of the firm?

From the point of view of the twenty-first century in Québec, the three basic roles of the SGF — direction of an industrial group, Québec control and secular arm — may well be challenged. The relevance of a Crown corporation at the head of a major industrial group is difficult to justify. This asks the government to assume a role which can now be taken over by the private sector. Similarly, counting on the government and Crown corporations to be the controlling Québec shareholder of last resort in our large industrial corporations would sanction the assumption that there is not a sufficient number of Québec industrial groups to play this role. If such were the case, the objective of the government

and its agencies should be to accelerate the emergence of Québec industrial groups to take over from the SGF. Consequently, the Committee believes that the SGF as a public industrial holding company no longer has any justification and that this function should be transferred to the private sector.

Furthermore, the role of the SGF as the government's secular arm to carry out projects may also be questioned. The SGF played this role for the Bécancour aluminum works. And it did so when it invested in Pétromont. Is it desirable for the government to acquire such secular arms? And is a Crown corporation the most appropriate vehicle for these activities, which are not usually under government jurisdiction? The Committee believes that the government should avoid the formula of using a Crown corporation as secular arm. We do not see the usefulness of preserving a Crown corporation to assume this role. Experience has shown that Crown corporations generally acquire a growing autonomy over the years and go far beyond their original mandate.

• SOQUIA

The Société québécoise d'initiatives agro-alimentaires, SOQUIA, was created in 1975. Its role was to stimulate the development of the agro-food industry in Québec. The means at its disposal are those of an investment company limited only by its financial resources available. The main action taken by this corporation is in the form of minority holdings and granting loans. It also has five wholly owned subsidiaries.

SOQUIA's financial interests are distributed in about fifteen enterprises, as shown in Table 3.5 on the following page. Culinar is its main investment in terms of capital invested, with 35.9% of the company's shares. The strategic importance of this investment is, however, mitigated by the presence of the Société d'investissement Desjardins as main shareholder (55%), with which SOQUIA is bound by a pre-emptive right agreement in the event of the sale of its interest. The other large-scale investment of SOQUIA was a 7% interest in Provigo which it recently sold.

Table 3.5
Financial Interests of Soquia as at March 31, 1986
(in thousand of dollars)

	Common shares	Preferred shares	Advance or loan	TOTAL
A. 100% owned subsidiaries				
Centre d'insémination artificielle du Québec Inc.	11 678*	—	—	11 678
Centre de distribution de médicaments vétérinaires Inc.	5 805*	—	—	5 805
Société québécoise des pêches	1 993*	—	113	2 106
Usine de congélation Saint-Bruno Inc.	1 725*	—	200	1 925
Bio-Agral	(440)*	—	508	68
Sub-total	20 761	—	821	21 582
B. Minority interests				
Culinar (35.9%)	14 610	—	723	15 333
Pêches nordiques Inc. (94.4%)	1 234	8 735	3 400	13 369
Les crustacés de Gaspé Ltée (30.0%)	118	—	33	151
J.E. Landry Inc. (31.7%)	1 625	—	875	2 500
Snyder & Fils Inc. (46.7%)	800	—	450	1 250
Semico Inc. (45.0%)	468	82	567	1 117
Cidre du Québec Ltée (46.7%)	400	—	308	708
Nutribec Ltée (21.2%)	550	50	—	600
Meunerie Camirand Inc.	—	—	284	284
Charcuterie la Dijonnaise (1982) Inc.	—	—	91	91
Abattoir R. Roy Inc. (100%)	487	644	304	1 435
Abattoir du Temis Inc. (33.3%)	50	463	238	751
Abattoir Dubé Inc. (33.3%)	50	539	100	689
Abattoir Richard Durocher Inc.	—	79	176	255
Les productions Chicon Inc. (42.0%)	433	—	360	793
Sub-total	20 825	10 592	7 909	39 326
TOTAL	41 586	10 592	8 730	60 908

* Including accumulated profits or losses.
(Source: Ministère des Finances)

A number of observers claim that SOQUIA was an important factor in the development of Québec's agro-food industry. This assertion is however heatedly disputed in the circles in question. Québec's agro-food sector, both distribution and manufacturing, is characterized by great variety and a large number of medium-sized firms. The distribution sector is relatively well structured. SOQUIA does not play a significant role, except for veterinary medications, where a wholly owned subsidiary, the Centre de distribution de médicaments vétérinaires, has a virtual monopoly.

The manufacturing portfolio of SOQUIA is highly diversified. However, it is well to question the relevance of a Crown corporation as source of financing in this sector. Thousands of medium-sized firms in other sectors of the economy manage to finance themselves without the presence of a government investor. Why should the agro-food industry be any different?

Our analysis of SOQUIA's situation leads us to two additional comments. First, from the point of view of Québec's economic development, the agro-food industry no longer has the strategic importance it did. The quantities of food products consumed in Québec and in Canada are stable. International prices for agricultural commodities are on the structural decline, under the thrust of self-sufficiency policies in developing countries and surpluses in agricultural countries. Moreover, Québec's presence is relatively strong in this sector and there are several vital firms. Why then should there be any reason for having a specialized government investment corporation in this sector?

Second, SOQUIA has not been a significant element in the development of most of the firms which have had a structuring effect in this industry. In the distribution sector, SOQUIA has been absent as a strategic factor. The main firms which have recently called upon large amounts of external capital, Algro and Métro-Richelieu, are not associated with SOQUIA. The same conclusion can be applied to manufacturing. Multi-marque, around which the bread sector has reorganized, does not deal with SOQUIA. It is also absent from the dairy sector, which is the prerogative of cooperatives. Nor is Lassonde, a rising enterprise in the agro-food industry, associated with SOQUIA. In fact, among the list of SOQUIA partners, there are few dynamic elements of Québec's agro-food world around which the industry could reorganize. In conclusion, the Committee is of the opinion that SOQUIA should gradually be liquidated. This disinvestment phase, which has already been undertaken, could prove the most constructive period of its history since SOQUIA would be responsible for placing in the hands of dynamic entrepreneurs the various blocks of shares it controls.

• REXFOR

The Société de récupération, d'exploitation et de développement forestier was created in 1969 to replace the Office de récupération forestière established in 1961. REXFOR essentially pursues two objectives. The first is concerned with forestry exploitation. REXFOR acquires and develops forest areas and guarantees supplies to processing industries. This role is carried out on specific instructions from the government. REXFOR's second role is that of a specialized investment corporation in the forestry sector. In many respects, REXFOR acts as the last resort investor for many high-risk projects in the forestry product processing sector.

The first mandate makes REXFOR a government agent. It must manage the exploitation of forests, and supply plants in conditions that are essentially not commercially profitable. In a way it makes REXFOR a subsidy vehicle, either for forest operators, or for wood purchasers.

Its second role, as an investment company, is similar to that of SOQUIA. However, both the circumstances surrounding REXFOR's action and the nature of its activities differ from those of SOQUIA. REXFOR was a major participant in the formation of Tembec and in the initial diversification of Cascades, at Cabano, two strategic projects for Québec's industry. Furthermore, the approximately ten processing plants in which REXFOR is a major partner are located, generally speaking, in single-industry towns or villages. For these regions, REXFOR is the government's secular arm entrusted with its political responsibility for maintaining or operating plants which are often the sole economic base of these communities.

An analysis of REXFOR's performance as an investment corporation brings us to three comments. First, the large processing industry sector now seems adequately structured and under Québec control so that it is difficult to justify the presence of an investment company for these enterprises. We even question the role of the SGF in this sector.

Second, we must ask if there is any reason to preserve a means of action such as REXFOR to maintain marginal processing firms or promote new plant projects. The investments required for such projects are not generally enormous and funds can be raised in many ways. Other means of financing, subsidies in particular, could be considered. This is an avenue which seems better to us and would merit further study.

Third, it seems illusory to count on a Crown corporation to rationalize an industrial sector. This applies to REXFOR. Any such process implies consolidations, plant closings and shifting of activities. Not only are the government and its agents not equipped to carry out such streamlining operations which the market does in a comparatively efficient manner, but also the government is generally very hesitant to assume the political costs of such processes. It seems obvious that REXFOR can with difficulty be an effective rationalization tool in Québec's forestry sector. Therefore, we believe it no longer has any reason for existence as a Crown corporation. The challenges of its sector remain, but government action, other than through the Crown corporation formula, should be considered.

• *Sidbec*

Sidbec has been a very special case in the economic history of the Quiet Revolution.¹³ The place held by an integrated Québec iron and steel industry in Québec's imagination at the beginning of the Quiet Revolution may make us smile today. But in 1960, the iron and steel industry was considered to be a highly strategic industrial complex. In the euphoria of the time, it is not surprising that the Québec government yielded to temptation. Sidbec was founded in 1964. It was hoped that it would become a second Hydro-Québec as a spur to economic development. Two years later, Sidbec purchased the installations of Dosco, from the British Hawker Siddeley group. The 1970s were those of the great dream of the integrated strategic complex. This vision led to a disastrous investment of over \$600 million in Sidbec-Normines, which was to supply Sidbec with iron ore pellets from the North Shore.

Unfortunately, the industry's position has changed radically in the past twenty years. The assumptions leading to the conception of this enterprise have been made obsolete by three major developments. First, steel has lost its strategic importance as an economic development spur. Second, steel markets have become restructured. Increasingly, local uses are the lot of these 'mini mills', small in size, supplied by scrap metal and using electricity. Imports fill basic uses and keep prices

very competitive. In this new market configuration, yesterday's giants (U.S. Steel, Bethlehem Steel, Inland Steel, Stelco, Dofasco and Algoma) are at a disadvantage. Sidbec is as well.

Third, supplies have gradually shifted from low ore content deposits like those of Sidbec-Normines, to new rich deposits in developing countries. Ore prices have been adjusted accordingly. This is the reason for the monumental failure of Sidbec-Normines. Since the beginning of Sidbec-Normines operations, two-thirds of the consolidated losses of Sidbec have come from the mining sector.

For a few years now Sidbec has been reorganizing as a regional steelworks and is developing gradually toward the "mini mill" configuration. In 1986 it may show a profit in spite of the debt burden totalling over \$500 million as at March 31, 1986.¹⁴

Sidbec seems to be a candidate about which opinions regarding its eventual privatization are unanimous. It is generally agreed that the Québec government no longer has a place in steel production, particularly in 1986. Furthermore, there are potential buyers in Québec who could take over as shareholders. From this point of view, the challenge is to organize a satisfactory transition for all parties.

Moreover, our analysis of the Sidbec case has led us to a basic conclusion about structuring action by government. In 1964, the creation of Sidbec was based on a broad consensus within political circles. They could not go wrong with steel as long as the right way was selected. The discussion dealt much more with means than the basic question. In the beginning, Sidbec was only an engineering bureau. After a few years, the purchase of Dosco's Québec and Ontario installations was taken as a point of departure. No one could visualize the financial catastrophe that would occur less than fifteen years later.

Today, aluminum fascinates us. Electricity has replaced Ungava iron as a natural advantage. However, does the Crown corporation give the government a tool that is sufficiently versatile and efficient to venture on the dangerous ground of major investments with all the flexibility required by a rapidly changing international economic environment? In this regard, the government's unfortunate experience in Sidbec should serve as an example.

13 For a review of the origins of Sidbec see Roland Parenteau, *L'implantation de la sidérurgie au Québec de 1960 à 1980: aspects politico-économiques*, in *Les cahiers de l'ACFAS*, No. 21, *L'avenir de la sidérurgie dans l'optique du Québec*, 12^e Colloque Augustin-Frigon, November 11-12, 1983. On page 132 the author states: At the time, the advisability of creating an iron and steel complex on government initiative appeared so obvious, in view of the political climate and typical euphoria of the Quiet Revolution that the Committee responsible did not consider it appropriate to dwell at length on the objectives of the project. And even later, the government never clearly explained the whole line of reasoning which induced it to make its decision.

14 *Le Devoir*, April 14, 1986.

• The Société nationale de l'amiante

The case of the SNA illustrates better than anything else the lack of flexibility and the strategic rigidity of Crown corporations. In 1977, the new government established the following objectives in the asbestos sector: obtain more information on the pricing and investment policies of mining companies, improve working conditions in the industry, promote the access of Francophones to administrative positions and increase local processing of asbestos fibres from 3% to 12% within a ten year period.¹⁵ To reach these objectives, the government decided to set up a Crown corporation which would become involved in the extraction and processing of asbestos. The legislation creating the SNA was tabled in November 1977 and passed in May 1978.

The key element in the government policy was the purchase, by mutual agreement or, if necessary, by expropriation,¹⁶ of control of Société Asbestos Limitée. The negotiations undertaken in the autumn of 1977 with General Dynamics Corporation, an American company controlling Société Asbestos Limitée, were delayed because of the many legal actions contesting the constitutionality of the government's approach. Not until November 1981 was an agreement concluded with General Dynamics and on February 12, 1982, the SNA formally obtained control of Société Asbestos Limitée. In the meantime, in 1980, the SNA had purchased Atlas Turner Inc., Les Mines d'amiante Bell Limitée and 90% of the shares of Turner Building Products Ltd.

However, about 1978 and 1979 it had become obvious that the commercial situation was less favourable to asbestos, primarily because of health problems related to its use. Previously, the Québec government had formed the Beaudry Commission,¹⁷ whose report in October 1976 left no doubt about the dangers of asbestos. Studies with similar conclusions multiplied in

other countries. Lawsuits became more and more numerous in the United States.¹⁸

The fact that the Québec government had announced in 1977 its intention of purchasing Société Asbestos Limitée kept the price of its shares at an artificially high level until 1981. The price of John Manville shares, an equally reliable indicator of the health of the industry, is more revealing. In 1977, John Manville shares reached their highest average price, \$33.80. However, in 1981, when final negotiations were taking place with General Dynamics, John Manville shares had dropped by over 40% compared with the average price in 1977. The government committed itself in 1981 to paying \$42 for the shares of Société Asbestos Limitée,¹⁹ that is a premium of nearly 70% compared with its average price in 1977. At the present time shares in this company are traded at about \$4.

In short, in spite of clear market indications, the Québec government remained inflexible in its approach. It had chosen to penetrate the asbestos sector, and was determined to build up an industrial patrimony. Table 3.6 on the next page illustrates the mining and industrial complex which emerged.

To date the Québec government has invested \$131.9 million in the SNA, that is \$130.1 million in the form of capital stock and \$1.8 million in loans. In February 1987, it must assume an additional debt of \$175 million to complete the transaction concluded in November 1981.

"Governments may make mistakes, they have no immunity against error. However, whereas in the private sector such errors are often corrected rapidly, governments tend to allow things to go on for some time to protect their reputation and not lose face", a former

15 For a study of the reasons behind the Québec government's action in the asbestos sector see A. Brian Tanguay, *Québec's Asbestos Policy: A Preliminary Assessment*, Canadian Public Policy XI, No. 2, June 1985, pp. 227-240. See also the debate on second reading, Bill 121, An Act to amend the act to establish the Société nationale de l'amiante. Débats de l'Assemblée nationale, May 24, 1979, pp. 1388-1406.

16 Bill 121, granting SNA the power to acquire, if necessary by expropriation, the property owned by the Société Asbestos Limitée, was passed in June 1979.

17 Final report, Comité d'étude sur la salubrité dans l'industrie de l'amiante, Gouvernement du Québec, October 1976.

18 In 1979, 141 claims per month on average were made against the Johns-Manville Corporation. The figure was 65 per month on average for 1978. On June 30, 1981, the total number of claims against this corporation for presumed injury related to the use of asbestos came to about 7,000. (Johns-Manville Corporation, 2nd quarterly report, June 30, 1981.) Concerns about the use of asbestos are still current. The Environmental Protection Agency (EPA) recently recommended that the use of asbestos gradually be eliminated in the United States. (*Les Affaires*, April 5, 1986.)

19 The acquisition cost of \$42 is indexed at a rate of 16% from January 1, 1982 until February 12, 1987, when it is generally agreed that General Dynamics Corporation will exercise its option to sell in accordance with the agreement concluded with SNA in November 1981.

Average price: 1975 — 1982²⁰

	1975	1976	1977	1978	1979	1980	1981	1982
Asbestos Limitée	18.3	20.0	25.3	42.2	42.4	32.7	33.4	12.0
Johns-Manville	21.8	30.0	33.8	29.7	24.7	22.9	19.4	10.6

Minister of Finance said recently.²¹ Political logic is implacable. It imposes a rigidity of action, even when circumstances change. Better than any argument, the history of the SNA points up the limitations of the government as a shareholder.

The process of streamlining SNA's activities is already well under way. Rationalization of the mining sector is almost complete and is reflected in fact by the withdrawal of the SNA, under cover of its interest in a limited partnership. Rationalization of the manufacturing sector, less advanced and more difficult because of the diversity of enterprises and the little interest it has generated, should be continued.

• **The Société québécoise du transport and Québecair**

Between 1978 and 1981, a struggle took place to take control of regional airlines in Eastern Canada. By 1981 it was obvious that streamlining was essential for the three enterprises in this sector: Québecair, Nordair and Eastern Provincial Airways. The latter, integrated with CP Air in 1985, was not taken up for our analysis. The fate of the other two which were subject to an intense struggle is, on the other hand, relevant to our discussion.

There were a limited number of parties involved in this case: the Desjardins group, the Caisses d'Entraide Économique, a few investment companies, mainly in Montréal, Alfred Hamel, an industrialist of the Lac St-Jean area and the executives of Nordair. The governments of Québec and Ontario were not indifferent to the situation. The federal government however warned Air Canada to keep out of the battle.

Rationalization of Québecair and Nordair should normally stem from the purchase of one firm by the other or a merger of the two. In either case, one of the two management teams would take control. In the eyes of the political and economic press, there would therefore be winners and losers. Québecair was identified with Québec. Although Nordair was a Montréal firm and its last two Presidents and General Managers were French Canadians, it was branded a "foreigner".

The financial interests controlling the two firms reached an agreement in the summer of 1981 on a merger project. However, the Québec government opposed the project. It then granted Québecair's shareholders a firm option to purchase, which they later exercised. The Québec government undertook successive investments which will eventually reach close to \$90 million.

During the 1981-1985 period, sporadic negotiations were undertaken by Québecair and Nordair for a merger which still remained just as valid. Early in 1985, Québecair made a public takeover bid for Nordair, which was not endorsed by Nordair's management, who called upon CP Air to come to their rescue. In the summer of 1985, CP Air won the bidding battle with a price of \$16.25 per share (six months earlier, shares were available at under \$9).

The Québec government now faces reality: Nordair will be integrated with CP Air and eventually disappear as a second level regional carrier. Québecair should opt for a corporate association, either in the CP Air system, or in the Air Canada system. According to some, it is quite possible that it will disappear as a second level carrier, since its network is now divided among third level carriers, charter specialists and first level carriers.

The market forces which called for a merger of the two firms in 1981 are the same that now doom them to disappear. If they had merged in 1981 the presence of a second level carrier would probably be a sure thing today. The firm would probably have been strong enough to hold its own in the current environment, as does Pacific Western in the Canadian West.

Observers generally agree that the Québec government's intervention in the summer of 1981 was the decisive factor contributing to the eventual disappearance of the two regional carriers in Québec. Because of this action, the merger of these two carriers which might have assured their survival was blocked.

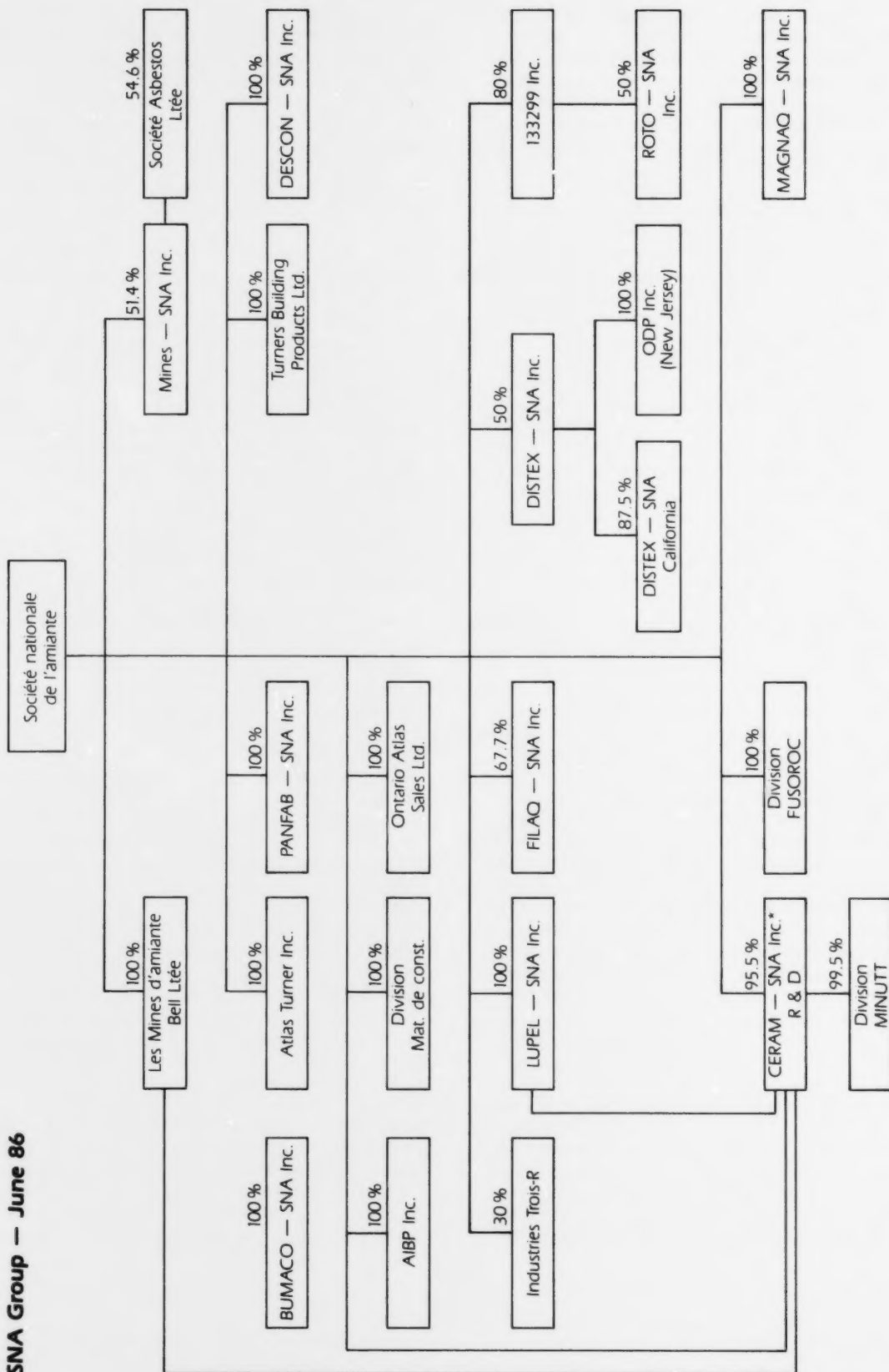
It can be very easy after the fact to condemn such strategic errors. The Québec government, it may be argued, could not predict in 1981 the market environment of 1986. But the basic error was not that of being mistaken; it was rather that of not trusting the private sector, in particular the Desjardins Group, Québecair's main shareholder, which had negotiated the agreement of the summer of 1981 with Nordair's shareholders. Allocation of capital by market mechanisms tends to channel it toward the most productive purposes (considering the tax environment and risks involved). It was because it misunderstood this reality that the Québec government intervened in the case of Québecair. Market forces nevertheless had the upper hand, at the price of a capital outlay of over \$90 million for which taxpayers had to foot the bill.

20 The average share prices have been established on the basis of 12 monthly surveys for each of the years. Johns Manville shares are quoted in U.S. dollars. (Sources of stock exchange prices: Asbestos 1976-1981 and Wall Street Journal.)

21 The former Minister of Finance, Mr. Jacques Parizeau, concluded as follows with regard to government action in the asbestos sector: In the same line of thinking, the Québec government committed an error in becoming heavily involved in asbestos exploitation. It did not develop sufficient awareness soon enough of the health risks stemming from the use of asbestos in building materials. Jacques Parizeau, *Public Enterprises: the Québec Experience*, The Newsletter, Institute for Research on Public Policy, Volume 7, No. 2, March/April 1985.

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Table 3.6



* CERAM — SNA Inc. is 99.5% owned by SNA and 0.5% by Les Mines d'Amiante Bell Ltée. Atlas Turner Inc. and Lupei-SNA Inc.

The Société du transport du Québec was constituted in 1983 to be responsible for Québec government action in the transport industry which generates over \$4 billion annually for our economy. The interest held in a road transport enterprise, which has now been sold, and a 25 % interest in a maritime transport firm, Sonamar Inc., were consolidated. The cost of this investment was \$371 000.

Without Québecair, the SQT has no reason to exist. As for the investment in Sonamar, there are private interests closely associated with maritime transport which could purchase this company's shares.

• **Madelipêche**

Madelipêche was established in 1978. In 1983 the government acquired all its shares. It is the main enterprise in the Iles-de-la-Madeleine, and employs not less than 10 % of the population.

Madelipêche operates a fleet of eight boats and two processing plants. It also has a wholly owned subsidiary: Les Crustacés des Iles Inc. which was two plants acquired from National Sea Products in 1984. The products processed by Madelipêche and its subsidiary are ocean perch, crab, mackerel, lobster and cod. From 1985, the consolidated sales of Madelipêche totalled \$20 million. The number of fishermen and plant workers comes to about 1 400 at the peak of the season.

The government has invested some \$44 million in Madelipêche over a seven year period. Everything suggests that additional funds which may come to \$5 million on average per year will be necessary.

There is no question for our Committee of recommending that the government abandon the Iles-de-la-Madeleine. We recognize that a government decision was responsible for the level of public funds channelled into the Iles-de-la-Madeleine and it is not our role to pronounce judgment on this matter. Two comments however may be made. First, is it desirable for the government to be present in such a telling fashion in the economy of a region and particularly in its economic base? Second, was not the purchase of Madelipêche an improvised, overly facile solution applied to the complex problem of the fishing industry of the Iles-de-la-Madeleine?

The fact that Madelipêche is a Crown corporation has little to do with the solution of economic problems in the Iles-de-la-Madeleine. Other factors will play a more important role, particularly the fish price situation, supplies, regulations, the form and level of subsidies granted to the industry on the Atlantic coast. Are we to believe that the Crown corporation structure is preferable

to private ownership for processing plants and fishing boats? Without making a thoroughgoing analysis of the subject, it seems that private entrepreneurs would have more flexibility and skill than a Crown corporation in dealing with the commercial and political twists and turns characteristic of this industry. The sole advantage of the Crown corporation would be preferential access to the province's consolidated funds. If this advantage is refused, more flexible structures would be preferable.

Our second comment is on the transition period. By purchasing virtually the whole processing industry of the Islands, the government seriously undermined its structure. Rebuilding a private sector, with its hierarchy of entrepreneurs, its small and medium-sized firms, its dynamic enterprises, requires time and cannot be done artificially. Reconstructing a private fisheries sector will be much more complex than the government's initial action in the Madelipêche case. But in the long run this solution will be much more profitable.

• **SÉPAQ**

The Société des établissements de plein-air du Québec was created in March 1985. Its task is to administer and develop, by itself or with others, the facilities, properties and territories with a recreational or tourist capability transferred to it under its act of incorporation. SÉPAQ may also administer, exploit and develop, by itself or with others, any other equipment, property and territory with a recreational or tourist capability which it may acquire.

The park of Mont Ste-Anne is the main asset held by SÉPAQ, which owns the land and facilities for camping, golf, downhill and cross-country skiing. It also owns the amenities of the fauna reserve of the Ile d'Anticosti, the Domaine, Auberge and golf course at Fort Prével in Gaspésie, and the Manoir Montmorency, as well as nine other camp grounds which belonged to the government.

The properties were transferred to SÉPAQ at the cost of \$25.1 million. As payment, the corporation issued to the Minister of Finance shares for an equivalent amount. The operating budget for the 1985-1986 year was \$18 million and revenues of \$15.6 million were anticipated. The deficit will be covered by a subsidy of \$2.4 million.

It seems to be generally recognized that the Québec government does not have a mission to own campgrounds, holiday resorts and conference hotels like the Manoir Montmorency. It is probable that a gradual transfer of these responsibilities to the private sector can be made quite easily. The park of Mont Ste-Anne is more

interesting. Obviously, the Committee believes that the Québec government is called upon for more basic tasks than to manage a resort centre, even through a Crown corporation. Several types of difficulties however arise in the case of privatizing the Mont Ste-Anne park. The recent experience of Mont-Tremblant is most instructive. We have perhaps not yet developed in Québec a broad enough base of firms with the necessary capital to tackle such projects. Therefore, privatization of the park of Mont Ste-Anne may prove more complex than it first appears.

4. Conclusions

Our examination of the situation of the Québec government's ten strategic enterprises leads us to two general conclusions:

1. **With the Crown corporation formula, the government often applies solutions which perpetuate temporary problems.** This was obviously the case for the SQT and Québécoir. But it was also true for the SNA. We must therefore be aware that the solution offered by the Crown corporation is more durable than many economic and political problems. By developing its own projects, the Crown corporation will then wish to establish its autonomy and ensure its permanence, even if the problems change. This tendency is often encouraged by initial mandates that are too broadly defined for Crown corporations.²²

The situation of Québécoir, the necessity for a Francophone presence in the asbestos sector, the maintenance of Dosco plants, the weaknesses of mining exploration in Québec, or the like, are all problems which, five years later, could be settled or on the way to being solved. However, the Crown corporation has a durability that goes far beyond these political horizons.

2. **The government concentrated on ways and means rather than structural objectives and needs.** The Crown corporation is an instrument for action which involves, as we have seen, many disadvantages. It is not SOQUEM which really stimulated exploration by Québec mining enterprises, but rather the rise in gold prices, fiscal measures in this field and the QSSP. Was the SNA the best means of favouring the development of a Québec presence and industrial leadership in the asbestos sector? This is far from being certain, particularly considering the costs. Is SOQUIP the best vehicle for promoting Québec interests in the hydrocarbon sector or rather Gaz Métropolitain, a long-established firm? Did the

realization of a project like the Bécancour aluminum works really require the participation of a Crown corporation? What are the conditions which would induce industries, large energy users, to set up in Québec on their own, without requiring piecemeal action by Crown corporations? So many questions which may be approached in several ways, not necessarily by creating a Crown corporation.

The Crown corporation proves to be much less flexible and efficient than generally believed to meet the needs of strategic government action in the economy. It is not necessarily the presence of an enterprise, however well intentioned, that will vitalize an industry. Furthermore, should this enterprise be subject to the constraints of the political system in the least of its strategic undertakings, its impact is likely to remain very limited.

The coverage of events concentrates particularly on errors, deficits and business problems of Crown corporations. The other side of their performance, their industrial impact, is not an event and therefore arouses much less interest. If the billions devoted by the Québec government to these ten strategic enterprises over the past twenty-five years had been used differently to achieve the same industrial objectives, would the results have been better? No one can answer this question; we cannot rewrite history. What does seem obvious on the other hand is that between now and the year 2000 it is not government ownership of these strategic enterprises which will affect Québec's economy.

The recommendations of the Committee are consolidated in Chapter VII. Nevertheless we believe it useful to indicate here that one of the recommendations provides for the gradual transfer to the private sector of all strategic enterprises. This recommendation reflects the conclusions drawn from our analysis of each of these Crown corporations. This transfer of course offers no guarantee of success and must not be taken as a miraculous solution for Québec's economic problems. But freed from the constraints stemming from the Crown corporation formula, the organizations underlying these enterprises will be in a position to perform better and be more productive. Québec's economy will surely be the winner.

²² The Gracey report, *op.cit.*, notes the same phenomenon of mandate drift for Ontario Crown corporations.

**PUBLIC
MONOPOLIES**

IV - Public Monopolies

Governments have taken responsibility for the management of various sectors of activities in most industrialized countries and public monopolies have been created for this purpose. The reasons for their formation are varied. The management structure is usually that of a public enterprise. Therefore it seemed important to examine the public monopolies set up in Québec and the role and efficiency of the Crown corporations working here.

The chapter is divided into four sections. The first deals with the sectors concerned, the second with the reasons for forming these monopolies. In the third section the limitations of this method of management are analysed, and in the fourth we set forth our conviction that maintaining these various public monopolies in their present form must be questioned. It should be noted here that the objective in this chapter is not to pronounce on the appropriateness of privatizing these corporations, but rather to undertake a basic discussion on the relevance and current structure of these public monopolies.

1. Nationalized Sectors

Whether a State monopoly is present in a particular activity sector or not varies from one jurisdiction to another. In certain sectors, however, public monopoly is the dominant trend. This is true for instance in the production and distribution of electricity, with the American experience being the exception.

The situation also varies with regard to the extent of the nationalized sector in health and social services. The Committee did not think it wise to deal with these two sectors since the nature of the analysis required would be quite different from that carried out for the Crown corporations coming under our terms of reference.

We have identified seven public monopolies in Québec outside the health and social services sector. Five of them are monopolies which are frequently found in other jurisdictions:

Production and distribution of electricity
Sale of wine and spirits
Lotteries
Automobile insurance for personal injury
Workmen's compensation

Hydro-Québec
SAQ
Loto-Québec
RAAQ
CSST

The Québec government has also created two other monopolies to manage certain of its activities.

Management of pension and insurance funds
under government control
Real estate management

Caisse de dépôt
SIQ

2. Reasons for These Monopolies

As in the case of strategic enterprises, the reasons explaining the presence of these monopolies are the same as those justifying their formation. We review them in this section, in chronological order.

Société des alcools du Québec

Its origin dates back to the creation of the Commission des liqueurs in 1921, at the time of the prohibition movement. The objective was social control of the sale of wine and spirits and a public monopoly was seen as the best means of achieving this. In 1971, following publication of the work of the Thinel Commission,¹ the SAQ monopoly was confirmed. A new argument was added to the first. A monopoly meant distribution costs were not as high as in the case of free sales because of the much smaller number of outlets. The SAQ's role was thus justified for financial reasons.

Commission de la santé et de la sécurité du travail

The insurance branch of the CSST is the former Commission des accidents du Travail whose creation dates back to 1931. The public monopoly was seen then, in Québec as elsewhere, as the most effective means of offering workers basic accident insurance. It was a concern for good management that justified the creation of an insurance monopoly, confirmed without much discussion when the CSST was set up in 1978.

Hydro-Québec

The formation of Hydro-Québec dates back to 1944 with the expropriation of a few electricity companies, including Montréal Light, Heat and Power Consolidated, following political pressure to lower electricity rates. Hydro-Québec's mandate was confirmed with the nationalization of all private electricity companies in 1963. Two arguments were invoked: standardization of rates throughout Québec and control by Francophones of a key sector of their economy.

Caisse de dépôt et placement du Québec

Economic nationalism was the reason for forming the Caisse in 1965 under the Lesage government. By concentrating the management of funds generated by public pension and insurance plans in a single institution, Québec acquired a powerful instrument for economic development.

¹ Report of the Commission of inquiry on the sale of alcoholic beverages. Gouvernement du Québec, February 1971 (Thinel Commission).

La société des loteries et courses du Québec (Loto-Québec)

Loto-Québec was set up in 1970. The Québec government in this way took over collection of the City of Montréal's voluntary tax. A number of American states and other provinces of Canada established similar corporations at about the same time. It seemed difficult, then, to see how private enterprises, competing with each other, could administer lotteries. In a word, the conception of government responsibility placed lotteries in the government sphere. The same holds true today.

Règle de l'assurance automobile du Québec (RAAQ)

In 1978, the Québec government instituted by legislation a compulsory "no-fault" insurance plan for bodily injury and material damage. Management of the basic insurance for bodily injury was entrusted to the RAAQ, an agency set up for this purpose. On the other hand, compulsory insurance for material damage was left to the private sector. Why was responsibility for this basic compulsory insurance divided between the private sector and the public sector? The dialectics of political debate, leading to adoption of the law, seems to have been the main reason. The social democracy then in fashion easily conceived that a Crown corporation could manage an automobile insurance plan in the best interests of the insured, better than the private sector.

Société Immobilière du Québec

A Crown corporation is probably more efficient than a board within a government department, particularly for managing government fixed assets. It was a concern for better management in this area that gave rise in 1984 to this Crown corporation, which benefits from having the Québec government as a captive client.

3. Limitations of State Monopolies

When they were formed, State monopolies seemed to be the most appropriate solution to meet an identified need. What is not generally done however is to question the pertinence of this solution at a later date. Such questioning is particularly necessary in view of the shortcomings of this method of management. These shortcomings stem on the one hand from its monopolistic character and on the other from the status of public enterprise. The consequences are many. We review them in this section.

1. **The monopolistic character of an organization is reflected in rigidities and implicit costs to users.** The risks associated with this management method are well known. Not required to adapt to changes dictated by competition, the monopoly be-

comes rigid with regard to its product. The absence of competition also makes the quality of services and products offered less essential. And the natural tendency is to establish monopolistic prices which are higher than prices would be in a competitive situation. To counter such shortcomings, regulatory agencies are generally established. A process of public examination of applications for setting rates and changing services enables users to exert pressure, where applicable, on the monopoly. However, it can be noted that none of Québec's seven monopolies is regulated by an independent agency. A Parliamentary Committee, in some cases, and the Cabinet, in others, cannot take the place of the rigorous discipline of public hearings. But it is also important to note the general perception, within the government, that these Crown corporations do not behave like monopolies and they do not have the shortcomings inherent in this type of organization. In our view, nothing suggests that the public monopolies of Québec are, *a priori*, exceptions to the rule.

2. **Concentration of power is favoured by the monopolistic character.** Any agency benefiting from a monopoly, slightly or ineffectively regulated, generally has the means to establish and administer its own autonomy. By its control over the service and its resources, the monopoly may build up combines which assure its independence. Because it cannot be measured against the competition, its efficiency is difficult to question. It is the only organization with the information and sets itself up as expert in the field, whether this is electricity, distribution of wine and spirits, automobile insurance, or the like. This leads to the syndrome of "The State within the State" often associated with these public monopolies and rarely with other Crown corporations.
3. **The government must reconcile its dual role of shareholder and regulatory authority.** This twofold role creates a dilemma difficult to resolve, with a resulting structural ambivalence. Yes to dividends from Hydro-Québec, but no to a raise in rates. Yes to a fair compensation of accident victims, but not to an increase in premiums. Therefore the government is often placed in a position of conflict of interest. It generally gets out of the difficulty by dividing up its conflicting responsibilities among several departments. But the resulting structural ambivalence sometimes has major consequences. The CSST has managed to build up an actuarial deficit of some \$1.8 billion because the government has not really taken on its responsibilities with regard to this institution.

4. **The government as shareholder is naturally ambivalent about its authentic role.** The Crown corporation structure is retained to establish a certain distance between the government and management of the activity concerned. Rarely is the reason for the corporation only to avoid the bureaucratic rules of government organization. There is also a determination to grant true autonomy to the government agency. But the government, sole shareholder, is still responsible before public opinion. Hence ambivalence and hesitation on the part of the shareholder, which can but be reflected in a similar ambivalence within the board of directors whose real responsibilities are poorly defined. This allows situations like that of the CSST to develop. The directors represent both contributors (representatives of business) and beneficiaries (representatives of unions). The shareholder, ultimately responsible for the actuarial deficit and the political problems stemming from the measures taken to eliminate it, plays an unobtrusive role. Often the government limits its role to the appointment of directors and the chief executive officer. Since the legitimacy of the management and the autonomy of the agency cannot be clearly circumscribed, particularly when governments change, the inevitable result is a certain wavering in the administration of public monopolies.
5. **The administrative rules of government bureaucracy are reflected in the administration of these public monopolies.** It is difficult for these Crown corporations to escape the influence of government bureaucracy. They will never have the operating flexibility of private enterprise. With the best will in the world, they can with difficulty escape certain shortcomings of government organizations. One of the factors that explains this state of affairs is the bureaucratic origin of some public monopolies. This is the case for instance, of the SIQ, set up from the organization of a former government department.
6. **Public monopolies are limited enterprises, territorially and sectorially.** The characteristic of a profitable organization in the private sector is to grow, either by diversification of products and services or by territorial expansion. The resulting growth gives management and executives superior avenues for achievement and performance. Public monopolies do not have this liberty. Their mandate, their activity sector and their territory are defined a priori.²

The six factors we have just mentioned are general and stem from the dual nature of these organizations: monopoly and Crown corporation. When they are created, other factors which are positive are invoked for justifying this choice. However, if the situation at a particular moment favours the creation of public monopolies, this does not mean that it should not be re-evaluated following changes in the environment. Therefore it is important to review the very existence of these Crown corporations.

4. Time for Re-examination

Every organization attempts to protect its independence. Public monopolies generally do so by coopting with the ministers assigned to them and developing a faithful clientele which will be able to defend its interests. Cooptation with assigned government departments is difficult to avoid in time. First, the executives and directors of these corporations are chosen by the ministers assigned. Second, public monopolies have discretionary resources and considerable leeway for legitimately coopting with the assigned department, in particular its senior officials. The fact that the cooptation goes on along legitimate lines makes no difference. The ministers assigned are generally apologists within the government for the Crown corporation they supervise.

Of course questions are asked. They arise when there is a crisis or when the corporation has problems with its clientele. This is true at the moment of the CSST, at grips with the hostility of employers' groups. And it is the case of the SAQ confronting some dozen small and medium-sized firms it competes with for bottling wine.

But the re-examination is rarely basic and does not generally challenge the very existence of the corporation. Ways and means are questioned. Take two recent cases, the CSST and the Caisse de dépôt. The problems of CSST are imputed mainly to the administration which seems to have favoured one party over the other. In addition, ambitions and expansionist desires on the part of management have led to a very rapid, significant extension of the CSST's action. The solution, however, is not to change management. This will be to disregard the problems inherent in the party structure of the board of directors and in a monopoly in industrial accident insurance.

The Caisse de dépôt is a financial institution of vast scope thanks to its captive clients. With \$24 billion in funds under its control, the Caisse de dépôt is probably one of the major fund managers in North America. Few American managers of pension funds seem to control such amounts with as much discretionary leeway as the Caisse de dépôt. The free play of market forces would not have permitted the constitution of such an agency, or its maintenance. Private sector trustees generally prefer to divide their funds among several managers to increase the general performance of their portfolio.

² The case of Hydro-Québec is interesting. Its mandate now instructs it to sell electricity to the United States and, in the space of ten years, its American revenues will represent a significant share of its sales. In the past, it had attempted to sell its technology internationally, through Hydro-Québec International. The operation was a failure. Loto-Québec and the SAQ have also at various times tried to sell their expertise on the international market, without significant success.

Another reason for which public monopolies are rarely questioned is that they generally escape the authority of central agencies such as the Conseil du Trésor and the ministère des Finances. They remain the responsibility of assigned departments. Lacking information, the Conseil du Trésor and the ministère des Finances are at a disadvantage for the re-examination that could be required from time to time.

Nevertheless, such questioning is necessary and it must be institutionalized. It should deal with basic issues, the very existence of a monopoly and the options available to society, as alternatives to a public monopoly.

It is not our committee's job to mark out this process. It has already been begun, although in a debatable fashion, in the case of the SAQ. It should be in the case of the CSST, the RAAQ and the Caisse de dépôt et placement. There will be good reason to ask questions, in a serene atmosphere free of politics, about Hydro-Québec, this national institution of which we are so proud. Perhaps it is too soon to reconsider Loto-Québec, but the emergence of alternative models in other regions should eventually hasten the discussion. We should allow the government time to develop the inevitable frustration of any captive client to ensure that it will study the SAQ.

THE PRIVATIZATION PROCESS

V - The Privatization Process

In February of this year, the Minister responsible for Privatization published a policy statement entitled "Privatization of Crown Corporations: Orientation and Prospects". The document presented a two-step privatization process. The Minister responsible for Privatization also introduced six guiding principles for directing government procedures. The Advisory Committee examined the document before its introduction and endorsed it.

We shall review the process and procedures developed in this policy statement. Moreover, the entire process calls for various comments which we shall also present in this chapter.

Privatization implies a significant exchange of resources between the public and the private sectors. It is definitely a matter of an exchange and not a transfer and both parties should benefit. The transactions that take place in privatizing Crown corporations will be among the most significant financial transactions involving business ownership in Québec. We already have one example: the public distribution of shares in CAMBIOR, for a value of \$125 million to \$150 million, is by far the largest first issue ever offered in Québec.

The stakes are just as great on the structural level. In a manner of speaking the Québec government will hand over to the private sector the commercial and industrial estate built up during the Quiet Revolution. It is not a question of denying the progress made during this period. Privatization is the next step in the continuing efforts by successive Québec governments to bolster the structures of the economy.

• Guiding Principles

The six guiding principles set forth by the Minister responsible for Privatization are reproduced below. The Committee wishes to add two additional comments with regard to certain of these principles and their implementation.

GUIDING PRINCIPLES

1. *Commercial production of goods and services in Québec's economy belongs to the private sector, except in extraordinary circumstances justified by the public interest.*
2. *Privatization is not an end in itself. When it must take place, the nationalization of a Crown corporation must be designed first to bolster Québec's economic structure while assuring Québec's presence in key economic sectors. Realization of a fair value for the assets transferred must also be considered.*

3. *Privatization must be done pragmatically, case by case, and may take place in a great many ways, depending on conditions specific to the corporation and its industrial sector.*
4. *Privatization is a public process which must comply with the equity and disclosure requirements applying to public companies.*
5. *The government will make certain that employees, communities and, if applicable, suppliers are fairly treated during implementation of any rationalization procedure which proves necessary.*
6. *Crown corporations that maintain their status will have to perform in accordance with rigorous production criteria and strict rules with a view to offering genuine competition on the market.*

Our first comment has to do with the possible sale of Crown corporations to non-Québec enterprises, that is, firms whose management and head office are located outside Québec. Economic nationalism, defined in its broad or narrow sense depending on the circumstances, was the original reason for most of the 17 Crown corporations we examined in chapters III et IV. The usual objective of the government was to establish in Québec an enterprise controlled locally in a given sector of activities.

Selling such an enterprise to non-Québec interests would be an important break with this orientation. Objectively nothing should rule out such a solution. The sale to interests other than Québec-based could, in the final analysis, bring these enterprises expertise and additional capital that they might not find among Québec buyers. Moreover, Québec's economic space is more and more integrated with that of Canada. It is becoming difficult to establish a clear demarcation between Québec enterprise and Canadian enterprise.

Nevertheless, the privatization process should respect the gains of the Quiet Revolution. So, as far as possible, the government should favour the takeover of the privatized corporations by Québec interests. The considerable amounts that Québec taxpayers have already invested in the Crown corporation network should also be considered in this respect. However, this rule cannot and should not be considered an absolute. The presence of a minority partner, or the necessity for close technological, commercial or financial ties with other enterprises outside Québec, are reasons which could call for deviations from this rule.

Our second comment deals with certain Crown corporations which might not be privatized. In their case rigorous performance criteria should be established. It would be important to ensure that this principle does

not remain a pious hope. To this end, the government should attempt to introduce structural constraints to ensure high performance behaviour on the part of Crown corporations. It should not hesitate to explore avenues such as participation by the public or private investors in the ownership of Crown corporations, as minority shareholders.¹ The government could also review the monopoly rights held by certain Crown corporations, thus favouring the free play of competition.²

• The Process

The Minister responsible for Privatization has adopted a two-step process for privatizing Crown corporations. The first is to determine the strategic option selected by the government. Carrying out the option will be done in the second phase.

Privatization may be looked upon as the administration of an auction. From this point of view, the first step consists in determining the conditions governing this auction, considering the stakes. The conditions must be clearly defined from the outset and respected throughout the process. The problems encountered by the federal government in the case of certain Crown corporations are tied partly to shortcomings in the definition of the conditions, which led to hesitation among potential buyers.³

Furthermore, it would be desirable for the process not to be biased in favour of private transactions. One of the main successes of the British experience has been the number of corporations denationalized by a public distribution of shares. This method often makes it possible to maximize the proceeds from the transaction, while ensuring that the integrity of the enterprise is maintained.⁴

The British experience was also innovative in reserving for the government a right of veto in the sale of most Crown corporations. This veto right (Golden Share or Special Rights Share) enables the government to take steps in advance, for example against a takeover of the privatized corporation by foreign interests. The British government actually used its Golden Share privileges in the case of an offer by a British multinational, Rio-Tinto-Zinc Corporation relating to the privatized corpo-

ration, Enterprise Oil. This is not an approach which we favour for Québec, because of its arbitrary aspect, except under very unusual circumstances. Other means may be envisaged to ensure keeping control in the hands of Québec interests. In this respect, we stress that CAMBIOR, the first Québec firm privatized by a public distribution of shares, does not have such a veto right. Moreover, the British government recognizes that such a veto right must be of limited duration.⁵

• Reorientation of Crown Corporations

One of the least publicized aspects of the Québec government privatization policy is the examination of the position of enterprises which are not privatized. A rigorous impartial examination of the role and structures of these Crown corporations must be made. It is always easy for the minister assigned to justify the need for a secular arm, but this justification must stand up to close examination. Therefore we suggest the preparation of a formal examination process for Crown corporations not to be privatized.

Major Crown corporations would be subjected to this examination process with regard to their mandate, structure and orientation. This is particularly true of the public monopolies we discussed in Chapter IV. The stakes are high and controlling the process would require firmness and tenacity. But it must be implemented, and in a context to ensure its success.⁶

1 The Minister of Finance of the previous government proposed, in the Budget Speech of April 1985, to authorize the issue of preferred shares in Hydro-Québec for Québec investors. The amount of the offering would have been \$400 million representing 10% of the wholly owned capital of Hydro-Québec.

2 The American experience in deregulation of a number of activity sectors in the economy is instructive in this area.

3 Problems related to the privatization of Teleglobe Canada stem from the uncertainty among potential buyers about the regulatory context of the telecommunications industry after privatization of the Crown corporation.

4 Privatization by selling shares to the public was used for eight of the largest public enterprises in Great Britain. The total number of share issues was thirteen, due to the fact that denationalization of certain corporations required more than one distribution of shares. *The Economist*, December 21, 1985, p. 86.

5 The minister responsible for coordinating the British government's denationalization program explains as follows the risks in maintaining indefinitely such a veto right: "Spectacular attention is always paid to the extent to which such powers ['Special' or 'Golden' shares] can be limited in time. For example, a power to block take-overs might legitimately shelter a company while it was establishing itself in the private sector and gaining confidence of its shareholders but, if retained indefinitely might diminish an important incentive towards efficiency and restrict the attractiveness of the shares. 'Privatization Achievements', speech given by John Moore, Financial Secretary of the Treasury, July 18, 1984, paragraph 39.

6 The Québec government on two occasions, in 1965 and 1978, attempted to establish a permanent mechanism for reviewing its Crown corporations. Raoul Barbe in *Les entreprises publiques*, op. cit., pp. 464-466, gives us the following background. In 1965, the government decided to establish a Commission des régies gouvernementales à caractère industriel et commercial. This commission would have a mandate among other things to examine: the legal system governing employees of Crown corporations; their financial structure; government and parliamentary control of these corporations; the fiscal system (municipal, school, provincial and federal taxes); the status of directors; auditing of their financial activities by the Auditor General or by private auditors; the advisability of state intervention in the economy; and any other matters. The Commission sat twice in 1968, but was later replaced by sectoral commissions. The second attempt to establish a review mechanism was made in 1978 when a parliamentary sub-committee was entrusted with studying the advisability of creating a standing elected committee for Crown corporations. The work of this sub-committee went on for almost two years but without result.

We see this examination as part of a relatively independent exercise, differing from privatization as such. Prior consideration should take place, on the same basis as the reflection, the essence of which is in the policy statement, which preceded the privatization process. Examination of the role and structures of Crown corporations could begin when the privatization process is well underway and Crown corporation status already confirmed for some of them.

• A Structural Impact

In the privatization process priority will be given to structural objectives. This is a major aspect of privatization as stressed in the policy statement by the Minister responsible for Privatization.

British experience is instructive in this respect. The nationalization of certain corporations has had a major impact on the attitudes of the citizens of Great Britain toward private enterprise and individual shareholding. Since 1979, the number of people who hold shares has almost doubled.⁷

The process of privatization in Québec provides an opportunity to inform Québec citizens about the respective roles of government and the private sector. It is not an exercise in promotion; nor must we consider privatization of Crown corporations to be a solution to our economic problems. But it is inevitable that certain decisions give rise to a public debate about the causes and effects of privatization of certain corporations. This debate will be quite beneficial. It will draw the public's attention to an examination of the reasons for the exercise and the respective merits of public and private management.

One of the most important aspects of this debate will be the issue of employment in the privatized corporations. Privatization of some corporations will require advance streamlining of their activities, which usually reduces the number of jobs. One of the guiding principles of the Minister responsible for Privatization provides for fair treatment for employees affected by such a rationalization measure. In the short term such job losses often cannot be avoided. However, it is only by becoming competitive and profitable that privatized corporations can develop. Ultimately the result will be the creation of jobs.

The privatization exercise will also be beneficial in other respects. Public offerings on the scale of CAMBIOR are in line with the thrust of the QSSP, making citizens aware of the public ownership of such enterprises. The auctioning of certain other corporations will attract several Québec industrial groups. Their presence and their interest will be tangible proof of the progress of Québec entrepreneurs and enterprises in building a strong diversified economy.

⁷ This was one of the anticipated results of the privatization program: "As we dispose of state-owned assets, so more and more people have the opportunity to become owners, both of bricks and mortar and of shares in companies. So these policies [whose aim is to reduce the size of the state-controlled sectors of the economy] also increase personal independence and function, and by establishing a new breed of owner, have an important effect on attitudes. They tend to break down the divisions between owners and earners. They give people greater security and fuller opportunities to participate in the creation of wealth for themselves and for the country." John Moore, *Privatization Achievements*, op. cit., paragraph 3.

THE SUBSIDIZED SECTOR

VI - The Subsidized Sector

The model of the Crown corporation is widespread in the government apparatus. It is in fact the preferred legal structure for organizing parapublic sector activities. We examined the efficiency of the formula with regard to subsidized activities. Thirty Crown corporations, outside the Social Affairs and Education networks, were taken for purposes of analysis. These Crown corporations were not subjected to an individual examination. They formed the basis for our thinking about the Crown corporation as an organizational structure for activities financed by the government but not traditionally under its jurisdiction. The results of our thinking are presented in this chapter.

The first section presents the thirty Crown corporations and identifies their common characteristics. The second section deals with the advantages of the formula and the third its limits. Alternatives are explored in the fourth.

1. Crown Corporations in the Subsidized Sector

They are of all types. From Radio-Québec to the Société du port ferroviaire de Baie-Comeau - Hauteville. They are shown in table-ad-6.1 on the following page, classified according to an original typology.

• Aid to financing: 9 corporations

The government prefers the Crown corporation formula for managing its aid to financing for two main reasons. One, the formula enables the corporation to develop its own decision-making rules, which are much more appropriate to its activities and more flexible than the rules governing financial transactions and how subsidies are granted by government departments. Two, the Crown corporation makes it possible to remove the assessment and financial aid granting process from the political arena.

• Research and technical services: 2 corporations

The model of the Crown corporation makes possible the conditions necessary for ensuring the presence and support of scientists in an appropriate environment, for providing firms with technical assistance and promoting the dissemination of technological and industrial information.¹

• Management corporations: 19 corporations

In this category are found most of the Crown corporations in the subsidized sector. There are three activity sectors: cultural enterprises, management of public facilities, and corporations responsible for regional planning and territorial development.

Crown corporations in the subsidized sector are a recent creation. With the exception of two, all these corporations are under 20 years old.² They correspond to the gradual involvement of the government in the financing of a host of activities. Their common characteristics may be summarized as follows:

- Their directors are appointed by the Québec government. This choice is sometimes influenced by a process of consultation and sectorial constraints. Nevertheless, the directors generally remain in office during the government's pleasure.
- Government financing is the main source of corporate income, or at least, the essential complement for a deficit-producing operating structure. Government subsidies provide the basic financing for these corporations.
- These corporations are subject to financial standards decreed by the government. In exchange for the government's financial participation, these corporations are subject to rigorous control of their expenditures and must respect various financial practices.
- These corporations have a definite mandate which they may not go beyond without government permission.
- They are non-profit corporations. They may not generally accumulate operating surpluses. This implicit rule affects their behaviour. Their main interest is not to maximize profits since they would not benefit. Their interest is to maximize their available budget, which is quite another matter.

These rules make these Crown corporations structures that lie between the government board and private enterprise. There are also clearly distinguished from non-profit organizations, which generally have a greater discretionary leeway.

2. Advantages of the Crown Corporation

The use of this formula is justified by two considerations on the part of the government. For certain activities of aid to business, the government board, that is the departmental formula, is not the most appropriate, for the reasons given above. The Crown corporation formula makes

¹ The Fondation pour le développement de la science et de la technologie distributes its income among the following three funds: the Fund for training of researchers and assistance to research, the Fund for health research in Québec and the Fund for research into agriculture, fisheries and food. In the research field, we should also note the presence of the Fund for health research in Québec, responsible to the ministère des Affaires sociales and the Fund S.C.A.C. for assisting and supporting research coming under the ministère de l'Éducation. (Financial statements, Québec government enterprises, 1983-1984).

² The Office du crédit agricole du Québec was established in 1936 and the Société de la Place des Arts in 1964 (Ministère des Finances, Direction des sociétés d'État).

Table 6.1
The Subsidized Sector

1. Aid to financing

- Industrial sector and high technology
- Agricultural and forestry sector
- Arts and culture sector
- Municipal and housing sector
- Other

Société de développement industriel du Québec Agence québécoise de valorisation industrielle de la recherche
Office du crédit agricole du Québec
Société de développement des industries de la culture et des communications
Société générale du cinéma
Société d'habitation du Québec
Corporation d'hébergement du Québec
Société québécoise d'assainissement des eaux
Société de développement des coopératives

2. Research and technical services

Centre de recherche industriel du Québec
Fondation pour le développement de la science et de la technologie

3. Management corporations

- Cultural support
- State facilities
- Territorial development
- Other

Radio-Québec
Musée d'Art contemporain de Montréal
Musée du Québec
Musée de la civilisation
Société de la Place des Arts
Maison de la musique
Société du Grand Théâtre de Québec
Société de la Maison des sciences et techniques
Régie des installations olympiques
Société du Palais des Congrès de Montréal
Société des Traversiers du Québec
Société du port ferroviaire de Baie-Comeau — Hauterive
Société Parc-Auto du Québec Métropolitain
Société de développement de la Baie James
Société du parc industriel du centre du Québec
Société du parc industriel et commercial aéroportuaire de Mirabel
Société d'aménagement de l'Outaouais
Société Inter-Port du Québec
Société québécoise d'information juridique

(Sources: Financial statements of Québec government enterprises, and Bureau de la Statistique du Québec.)

it possible to place between these activities and the government an administrative and political distance to significantly improve their realization.

Furthermore, with regard to management corporations, the formula stems from a decision that the activities do not traditionally come under government jurisdiction. Essentially, these activities cannot be efficiently managed by the government and are rather of a local, community or sectorial nature. Hence the advantage of the Crown corporation which enables the government to entrust their administration to persons from the circles concerned. The Crown corporation structure makes it possible to reconcile government will and the constraints of managing these activities which call for close liaison with their milieu.

Thus the government attains two objectives. First, it makes certain the activity is carried out. This is the first object of creating the Crown corporation. Second, the

government assures a certain control, both through the financial and administrative standards it has decreed, and through the choice of directors.

A final advantage in the use of the Crown corporation in a subsidized sector lies in the facility of the formula. This characteristic largely explains the great number of Crown corporations in this sector. It is a formula that is within reach and alternatives to creating Crown corporations have been little explored.

3. Limitations of Crown Corporations in the Subsidized Sector

The formula has its advantages; it also has its limitations. We shall deal briefly with these limitations in this section.

- The government remains responsible if only because the corporation is seen as an integral part of the gov-

ernment. For the RIO, the SAO, the SDI and the Société de la Place des Arts it is acknowledged that, on basic questions, the minister assigned makes decisions. The board of directors of the Crown corporation is a decision-making and responsible body, but in the final analysis, it is only an intermediary, and public opinion recognizes this state of affairs.

- The government is a not very interested shareholder. Its main objective is the realization of the activity. Its action is confined mainly to financing. On the other hand, it assumes very few of its responsibilities as a shareholder. The process of appointing directors is usually fairly unstructured and follow-up of their mandate rarely organized.
- The private sector frees itself from its responsibilities. There can be only one responsibility centre. If the government assumes it, the private sector leaves the field free and withdraws. Since it is not responsible, the private sector which, in other circumstances, could have supported a non-profit organization, slips away. Thus the activity in question, whether it is the Palais des Congrès or the Musée d'Art contemporain de Montréal comes completely under government jurisdiction.
- Corporations in the subsidized sector become more and more dependent on the government for financing. They can obviously count on their clientele, but this clientele generally expects a government rate schedule, that is, subsidized. Furthermore, the fact that the government is involved in the administration would be sufficient to justify special rates. As we mentioned, the private sector does not feel bound either morally or socially to this corporation for financing its operational budget. Municipal and federal governments also feel free of any responsibility, since it is an agency of the provincial government. In the case of cultural agencies, major sources of financing are thus left unused by this structural determination of the provincial government to manage the activity through a Crown corporation.
- Crown corporations are doomed by their mandate to a relatively static existence. The legitimacy of the Crown corporation in this sector comes from the legislator at the outset and subsequently from an assigned department which appoints directors, approves the annual budget and provides financing. It has no freedom to redefine or even to develop its mandate. It is not autonomous. Its successes are reflected in lower subsidies, its failures, in a review of its operations by civil servants to determine if there is a reason to change the financing rules. In the short term, this status of institutional dependence is not restrictive. In a longer term perspective, however, it sets its development in a bureaucratic mode which in no way assures its progress.

The Crown corporation in the subsidized sector may have satisfied the imperatives of the time when it was formed. However, this formula suffers from the many

imperfections inherent in its nature. This is why it should not be automatically adopted to manage subsidized activities.

4. Alternatives

Two types of options may be considered as alternatives to the Crown corporation in this sector: the non-profit organization and the management contract granted to a private firm. The non-profit organization differs from a Crown corporation first in the appointment of directors. The government is not responsible. On the other hand, the government remains the main financing agent which gives it a directional power of some scope. The government exchanges its power as shareholder for that as client. The non-profit organization has the advantage of drawing its legitimacy from its own milieu. The government is not the sole source of funds and, in the case of a crisis, the ultimate refuge. The community (or sector) assumes responsibility.

A great many management corporations could be entrusted to non-profit organizations. Why this is not so can be explained largely by the origin of management corporations and political circumstances surrounding their formation. From this point of view, privatization toward the non-profit model is an avenue which would be worth exploring systematically.

The service contract, or contracting out, is another option which appears worthwhile in certain circumstances.³ When the activity lends itself to a carefully circumscribed program of action, the government may reserve itself the role of client. There are many aid programs where management by contract could be considered. Similarly, management of certain collective facilities could also be entrusted by contract to private firms. This is a common model. Many real estate owners, for instance, entrust the operation of certain activities, such as hotels, conference centres, office rental, etc., to specialized firms. The Québec government could envisage the same policy.

Certain Crown corporations in the subsidized sector work in activities that are essentially local. The gouvernement du Québec could delegate responsibilities to local authorities, in exchange for providing financing by contract. The Québec government has little to do with the management of the Mirabel industrial park, the port and railway of Haute-Rive or planning and promoting economic development in the Outaouais. Delegation to local authorities seems preferable to the present centralization.⁴

3 Contracting out is used more and more by public agencies. According to the Union des municipalités du Québec, the municipal services market could triple in the short term, from \$500 million to \$1.5 billion per year. Contracting out is used for about 10% of the municipal services in Québec. Normand Rhéaume, *La tentation du "faire-faire"*, *Revue COMMERCE*, November 1985, p. 48.

4 The April 1985 Budget Speech of the previous government announced its intention of promoting a takeover of Crown corporations working in the industrial promotion sector by local and regional communities.

The Crown corporation in the subsidized sector, particularly the management corporation, should be considered a structure suitable in the short term but which, from the point of view of permanence, has severe limitations. In sectors other than Social Affairs and Education, there is good reason to examine the advisability of reviewing the status of the thirty Crown corporations we have inventoried and exploring other administrative avenues, more efficient and more appropriate.

**CONCLUSIONS
AND
RECOMMENDATIONS**



VII - Conclusions and Recommendations

Our terms of reference have led us to examine the position of Crown corporations, particularly those we call strategic enterprises working in industrial and commercial sectors, competing with private enterprise. We also analysed seven public monopolies and thirty corporations in the subsidized sector, although in less specific fashion. Here are the findings which have emerged:

- (1) The ten Crown corporations which have a mandate as a strategic enterprise grew out of a political system when they were formed which reflected government concerns at a particular moment. In a word, the strategic enterprises are instruments set up by the government to meet a particular temporary political need.
- (2) Economic nationalism was the main justification when strategic enterprises were created. Each Crown corporation attempted to strengthen Québec's industrial fabric by adding a strategic pillar which was also a special avenue for promoting Francophone executives in this industry. Only the SÉPAQ escaped this justification.
- (3) Political and economic contexts changed but the political power does not necessarily react in consequence. The political power has little ability to make adjustments as circumstances change and to undertake the necessary re-examination of the status and mandate of strategic Crown corporations.
- (4) The economic Québec of the next fifteen years will be very different from the economic Québec of the Quiet Revolution. Enterprises managed and controlled by Quebecers have grown up in all industrial sectors, radically changing the industrial structure and the relative importance of the ten strategic enterprises. At the same time, Francophone executives have made their mark in all the workings of the Québec economy, particularly the administration of business and financial institutions.
- (5) The Québec government's economic priorities have changed from acting as an entrepreneur to acting as a catalyst. Government priorities will attempt to create conditions conducive to the development of enterprises and entrepreneurs rather than confining itself to specific direct action in the economy, as through a strategic enterprise.
- (6) The financial performance of strategic enterprises has on the whole been rather poor. This phenomenon is characteristic of Crown corporations in such contexts and reflects the frequently difficult terms of reference they are given.

(7) The ten strategic enterprises have had mixed results as to their economic objectives, such as Québec control, structural impact and promotion of Francophones.

(8) Moreover, the public monopolies we examined are characterized by structural shortcomings stemming from their dual status as commercial monopoly and Crown corporation. These limitations, inherent in their structure, may affect their efficiency.

(9) The Crown corporation formula used by the thirty corporations in the subsidized sector outside the Social Affairs and Education networks also suffer from structural shortcomings. While it is a management method superior to the government board (department) in the circumstances, it is also an administrative structure which must reconcile many contradictions to be effective.

These remarks summarize our observations and reflections. They serve as a background for the presentation of our seven recommendations.

Recommendation 1: all strategic enterprises should be privatized.

A privatization process should be implemented for the ten strategic enterprises. This process should start within the next eighteen months. The enterprises are:

Société générale de financement	(SGF)
Société québécoise d'initiatives agro-alimentaires	(SOQUIA)
Société québécoise d'exploration minière	(SOQUEM)
Société québécoise d'initiatives pétrolières	(SOQUIP)
Société de récupération, d'exploitation et de développement forestier du Québec	(REXFOR)
Sidbec	
Société québécoise des transports and its subsidiary, Québecair	(SQT)
Société nationale de l'amiante	(SNA)
Madépêche	
Société des établissements de plein air du Québec	(SÉPAQ)

Recommendation 2: the effects on the structure of the economy should take priority over financial aspects.

The criteria governing the choice of purchasers should give special attention to the impact of the transaction on the economic structure, as opposed to its financial profitability, although the latter element must not be neglected. This is a preference clearly stated by the Min-

ister responsible for Privatization which is formally endorsed by the Committee.

Recommendation 3: acquisition of the privatized corporations by Québec interests should be promoted.

The effects on the economy will generally be greater when the privatized corporation is controlled by Québec residents or when the management and head of office of the enterprise controlling the corporation are established in Québec. For this reason, in view of the considerable sums already invested by Québec taxpayers in the Crown corporation network, the government should favour, as far as possible, the acquisition of the privatized corporations by Québec interests.

Recommendation 4: the advisability of giving a residual mandate to certain Crown corporations should be analysed in the light of alternatives offered by the private sector.

The Committee does not see the use of preserving the secular arm, that is, residual organizations to be tools for ministers assigned in carrying out special projects. In the two cases where this secular arm could seem most justified, the SGF, for major industrial projects, and REXFOR, for high-risk projects in remote villages with a single-industry capability, seem inferior substitutes to agents in the private sector which could carry out the same projects at lower cost and more efficiently.

Recommendation 5: public monopolies should be subjected to an in-depth re-examination of their status as monopoly and Crown corporation.

A formal process of re-examining the status of public monopolies should be begun. The review process should analyse all the options presented for realizing their objectives.

Recommendation 6: the advisability of using the Crown corporation model in the subsidized activity sector should be reviewed in the light of more efficient alternatives.

The status of Crown corporations in the subsidized sector should be examined and alternative structures analysed, in particular, non-profit organizations, private agents and community or regional agencies.

Recommendation 7: priority should be given to the privatization of strategic enterprises and examination of the status of certain public monopolies.

Priority should be given, in the privatization process, to the strategic enterprises, particularly those where privatization combines spread effects and speed of execution. The examination of certain public monopolies, particularly the SAQ and the CSST, should be undertaken fairly soon in the process.

These seven recommendations summarize the Committee's point of view about the privatization process. Nevertheless, it is a complex procedure which must be undertaken carefully but firmly.

We also recognize that it is a highly political process. Privatization traces essentially the limits of direct government action in the production of goods and services. Between now and the year 2000, it seems obvious to us that the vitality of Québec enterprises and entrepreneurs will be the main structuring component of Québec's economic development. The Quiet Revolution has done its work: it bequeathed to us a strong dynamic private sector. It is now time to turn the page.

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Imprimé au Québec, Canada